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U. S. SECURITIES AND EXCHANGE COMMISSION

FIFTY-THIRD ANNUAL REPORT

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
THE CHAIRMAN

May 6, 1988

The Honorable George Bush
President of the Senate
Washington, D.C. 20510

The Honorable Jim Wright
Speaker of the House
Washington, D.C. 20515

Gentlemen:

It is an honor to transmit the Fifty-Third Annual Report of the Securities and Exchange Commission for the fiscal year ended September 30, 1987.

The 1987 fiscal year was somewhat unusual because three different people chaired the Commission during the year. Former Chairman John Shad concluded his long and distinguished service at the Commission on June 18, 1987. Commissioner Charles C. Cox served admirably as Acting Chairman until I became Chairman on August 7, 1987.

During fiscal year 1987, the excellent work of the staff enabled the Commission to fulfill its statutory mission while meeting new challenges, in the headquarters and regional offices. Increased budgetary resources, requested from Congress for upcoming fiscal years, would enhance the Commission's ability to continue this high level of performance.

Statutory responsibilities of the Commission include enforcing the federal securities laws, ensuring complete and accurate disclosure regarding the issuer and its securities, overseeing stock exchanges and secondary market participants, regulating investment companies and investment advisers and engaging in appellate and other litigation. The Commission again successfully discharged these responsibilities during the fiscal year.

	1983	1984	1985	1986	1987
Enforcement Actions	261	299	269	312	303
Filings Given Full Review	6,987	7,237	9,571	10,526	10,797
Broker-Dealer Oversight Exams	324	389	447	481	452
*SRO Inspections	18	20	21	22	23
Investment Co. and Adviser Inspections	1,085	1,334	1,606	1,906	2,033

*Self-Regulatory Organizations

Enforcement: During the fiscal year, the Commission's enforcement program continued to be vigorous and comprehensive. Primary program areas are fraudulent securities offerings, violations of the securities laws by broker-dealers and other regulated entities, insider trading, and issuer financial disclosure. A total of 303 cases were brought during the year. The Commission obtained court orders requiring defendants to return illicit profits amounting to approximately $121 million. Disgorgement in insider trading cases alone amounted to $70.1 million, and civil penalties under the Insider Trading Sanctions Act amounted to $62.6 million.

Some of the most significant insider trading cases in the Commission's history were brought during the fiscal year. On November 14, 1986, the Commission instituted and settled a civil action against Ivan F. Boesky, an arbitrageur. As part of Boesky's settlement, he agreed to cooperate with law enforcement officials in continuing inquiries. The cooperation was significant in the Commission's strategic approach to law enforcement.

Full Disclosure: The full disclosure program is designed to provide investors with full and accurate material information, foster investor confidence, contribute to fair and orderly markets, facilitate capital formation, and inhibit fraud. Ongoing activities and special projects were carried out to accomplish the goals of the program.

Full reviews of disclosure filings increased during the fiscal year. Resources were devoted to new issuers, tender offer filings, and to annual meeting proxies. The latter category included over 2,000 proxies requesting shareholder approval for reducing director liabilities and broadening indemnification of corporate officers and directors as a result of new state corporate laws. New issues of securities and corporate acquisitions and restructurings were at high levels during the year.

Passage of the Tax Reform Act of 1986 required substantial staff resources for filings made to assure certain tax consequences. Innovative securities, such as private and public collateralized loan obligations, continued to proliferate. Also during the year, the Commission took action on a wide range of issues in rulemaking, interpretive, and legislative matters. Additionally staff prepared a chapter in the internationalization report.

Accounting and Auditing Matters: During the fiscal year, the Commission adopted rules that improve and simplify disclosures made by bank holding companies about loans to countries experiencing liquidity problems. It also amended its rules to delete certain requirements regarding disclosure of effects of inflation and changing prices. The Commission also issued proposed rules regarding peer review and increased disclosure of disagreements between accountants and clients. The staff also studied the draft proposals of the National Commission on Fraudulent Financial Reporting.

EDGAR: The Commission's pilot electronic disclosure system (known as "EDGAR" for Electronic Data Gathering, Analysis and Retrieval) successfully completed its third full year of operation, demonstrating the feasibility of electronic filing and review. Over 20,000 filings have been made since the pilot program began in September 1984. Filers include publicly-traded corporations, investment companies, and public utility holding companies. During the fiscal year, the Commission moved ahead with plans for an operational system and the Request for Proposals, amended to reflect changes in the funding strategy, was released on October 23, 1987. The Office of Edgar Management was created to direct the procurement and implementation of the EDGAR operational contract.

Regulation of the Securities Markets: During the fiscal year, on-going programs for oversight of the nation's securities markets and of market professionals were carried out, and progress was made on new challenges presented by the markets.

Oversight examinations of broker-dealers were enhanced with the addition of on-line computer systems to improve collection of data and with development of software programs for use in field examinations. The staff increased the emphasis placed on review of sales practices during the year in inspections of broker-dealers and of self-regulatory organizations. Also during the year, 500 new over-the-counter securities were designated as National Market System securities, and unlisted trading privileges were granted for 25 NMS securities to be traded on the Midwest Stock Exchange. In the area of clearance and settlement of securities, progress was made during the year. Specifically, mortgage-backed securities transactions settling in sameday funds, and mutual fund orders were added to the National Clearance and Settlement System, and immobilization of securities was encouraged during the year.

Issues associated with internationalization of the securities markets remained a high priority. The Commission approved certain linkages between exchanges and clearing agencies and granted certain exemptions to accommodate foreign market structures. The Commission held a roundtable discussion on internationalization issues associated with primary and secondary markets. These issues were also discussed in the Staff Report on Internationalization.

Market volatility remained a concern of the Commission throughout the fiscal year. The Commission took steps, in cooperation with the exchanges, to reduce volatility on so-called Expiration Fridays, and study of the results continued. Also during the fiscal year, the staff completed and published an intensive review and analysis of market events of September 11 and 12, 1987. Although that study did not find that immediate regulatory action was necessary, it expressed concern over a "cascade" scenario of certain sudden effects in the securities markets because of the close interplay and increased use of derivative products for index arbitrage and portfolio insurance.

Economic Research and Analysis: The economic staff provides the Commission with economic advice and analysis regarding rule proposals, policy matters, and the capital markets. It also engages in statistical monitoring of the securities industry. During the year, the staff reviewed 110 rules and rule proposals. It also provided advice to operating divisions regarding the requirements of the Regulatory Flexibility Act, reviewing 65 Regulatory Flexibility analyses and certifications. A major initiative during the year was the Staff Report on Internationalization. Also, staff prepared studies concerning: the effects of multiple trading of options; the use of repurchase agreements; trading and returns behavior of initial public offerings; alternative criteria for subjecting of issuers to the mandatory disclosure requirements; and effects of full cost accounting on oil and gas firms. Additionally, the staff prepared several studies regarding changes in corporate control. These included tender offer financing; dual-class recapitalizations; effects of defeating takeover attempts; market anticipation of takeovers; and the effects of the Ohio anti-takeover law. Other analyses were performed during the year regarding various aspects of mutual funds.

Litigation and Legal Activities: The Office of the General Counsel represented the Commission in 304 litigation matters. During the fiscal year, 36 federal court of appeals and Supreme Court cases were concluded, all but three favorably to the Commission. Of 16 appeals in Commission injunctive actions, six were concluded, with only one outcome

unfavorable to the Commission. There were also 23 appellate and district court actions seeking to overturn Commission orders. Ten were concluded, with one adverse result.

Also during the year, the Commission participated as *amicus curiae* in 46 cases, and entered its appearance in 32 of 94 reorganizations under Chapter 11. The General Counsel handled more than 217 other proceedings before the Commission or in the federal district courts, assisted the Commission in preparation of testimony on a number of important issues and on a legislative proposal to amend the Exchange Act to permit the Commission to regulate certain brokerage activities of banks. The General Counsel also assisted in preparation of the Staff Report on Internationalization.

Investment Companies and Advisers: The number of investment companies, investment advisers, and assets managed by them increased substantially during the fiscal year, while staff levels in the Division of Investment Management remained essentially unchanged. For the first time, the number of examinations completed by regional and headquarters staff during the fiscal year exceeded 2,000, almost double the number completed five years ago. Both regional and headquarters staff continued efforts to coordinate with state regulators by conducting joint examinations, providing training for state examiners, and routinely sharing examination results. Also during the year, substantial progress was made on a report requested by Congress regarding the financial planners industry. Among the areas discussed in the report is the National Association of Securities Dealers' pilot project to inspect investment advisers who are also NASD members.

Other initiatives undertaken by the staff during the year included work on legislative proposals, on the Staff Study on Internationalization, rulemaking and disclosure and administration of the Public Utility Holding Company Act.

Management and Program Support: During the fiscal year, management staff initiated 24 major projects, including reviews of information security and internal control objectives. Consistent with prudent management, internal audits were conducted of programs, activities and functions. Consumer affairs specialists responded to approximately 40,000 complaints and inquiries during the fiscal year, an 11 percent increase over the previous year. During fiscal year 1987, 1,908 Freedom of Information Act requests were processed, and 2,005 Congressional requests for records were fulfilled. Programs in support of Equal Employment Opportunity were carried out during the year, as were programs designed to enhance computerization. Also during the year, training programs emphasized computer literacy, leadership subjects related to equal employment opportunity, and other significant areas.

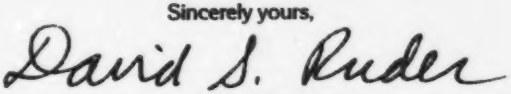
In November 1986, the Commission received the Outstanding Employer of the Year Award from the District of Columbia Rehabilitation Services Administration, recognizing efforts in hiring, training and retaining the handicapped.

Also during the year, the Commission testified before Congress 19 times regarding issues such as tender offers, insider trading, oversight and surveillance of the securities markets, federal government loan sales, the role of auditors in financial reporting, and the Commission's authorization and appropriation.

As the new fiscal year began on October 1, 1987, further regulatory challenges emerged. Periods of volatility in the securities markets continued to be of deep concern. Automation in the securities markets continued to bring farreaching changes. Speeded by automation,

internationalization of the markets continued at a rapid rate, presenting issues of policy for regulators around the world. Addressing these issues will be a high priority during the coming fiscal year.

Sincerely yours,



David S. Ruder
Chairman

Enforcement Program

Key 1987 Results

The Commission's 1987 enforcement program was both vigorous and comprehensive in nature. While the largest program areas continued to involve fraudulent securities offerings and violations by broker-dealers and other regulated entities, the Commission also brought record numbers of cases involving insider trading and issuer financial disclosure, areas which have received continuing emphasis. The Commission brought a total of 303 cases in fiscal year 1987. In fiscal 1986, it brought 312.

Total Enforcement Actions Initiated

	FY '83	FY '84	FY '85	FY '86	FY '87
Total	261	299	269	312	303
Civil Injunctive Actions	151	179	143	162	144
Administrative Proceedings	94	114	122	136	146
Civil And Criminal Contempt Proceedings	14	4	3	14	13
Reports of Investigation	2	2	1	0	0

In fiscal year 1987, the Commission obtained court orders requiring defendants to return illicit profits amounting to approximately $121 million, either as disgorgement or as restitution to defrauded investors or entities. Disgorgement orders in insider trading cases amounted to $70.1 million, compared to $29.7 million in 1986. Civil penalties under the Insider Trading Sanctions Act of 1984 (ITSA) amounted to $62.6 million.

The Commission referred matters, or granted access to its files, to the federal and state prosecutorial authorities in 150 cases. There were 72 criminal indictments or informations and 87 convictions obtained during fiscal year 1987 in Commission-related cases.

Introduction

The Commission's enforcement program seeks to preserve the integrity, efficiency and fairness of the securities markets by enforcing the federal securities laws. These laws provide civil and administrative remedies designed to rectify past violations and prevent future violations.

Most Commission enforcement actions are preceded by a private investigation to determine whether a violation of the securities laws has occurred or is about to occur. Where necessary, the Commission may order a formal investigation and thereby authorize the staff to issue subpoenas compelling testimony and the production of documents.

Depending on the results of an investigation, the Commission may authorize the staff to commence a civil action in a United States District Court, institute an administrative proceeding, or refer the matter to the Department of Justice for

criminal prosecution. Matters may also be referred to state or local authorities or self-regulatory organizations for appropriate action.

The Commission's primary civil remedy is a federal court injunction which directs the subject to comply with the law in the future. If an injunction is violated, contempt of court proceedings may result in imprisonment or the imposition of fines. Courts may also issue orders providing other equitable relief such as restitution, disgorgement of illicit profits, and other appropriate remedies. Those who commit insider trading violations may be subject to a penalty not to exceed three times the profit gained or loss avoided.

The Commission is authorized to bring administrative proceedings against regulated entities such as broker-dealers, investment companies, and investment advisers, as well as persons associated with such entities. Where the Commission finds that a regulated entity has willfully violated the securities laws, it may impose remedial sanctions ranging from a censure to revocation of the registration required for the entity to conduct business. The Commission also may censure or limit the activities of associated persons, or suspend or bar such persons from association.

Issuers of securities are subject to administrative proceedings if they fail to comply with the disclosure, proxy and tender offer provisions of the Securities Exchange Act of 1934 (Exchange Act). Individuals causing such failures may also be named as respondents in such proceedings. Respondents may be ordered to comply with applicable provisions of the securities laws upon specified terms and conditions, or to take steps to effect compliance.

Issuers may also be named as respondents in certain proceedings authorized by the Securities Act of 1933 (Securities Act). In addition, the Commission may publish reports of investigation under Section 21(a) of the Exchange Act.

Criminal sanctions for federal securities law violations include fines and imprisonment for up to five years for each violation. The Commission has developed close working relationships with the Department of Justice and U.S. Attorneys' Offices to assist in the investigation and prosecution of such cases. The Commission also cooperates closely with state securities regulators and self-regulatory organizations, including the National Association of Securities Dealers (NASD) and the various national securities exchanges.

Program Areas

The Commission investigates and brings enforcement actions to remedy a broad range of violations. Classified by primary violation, enforcement activity during fiscal year 1987 included (1) cases concerning corporate reporting and accounting, (2) insider trading, (3) violations by regulated entities and associated persons, (4) market manipulation, (5) securities offerings, (6) changes in corporate control, (7) related party transactions, (8) fraud against regulated entities, (9) civil and criminal contempt actions, and (10) delinquent filing cases against both issuers and individuals. (See Table 33 for a listing of all enforcement actions instituted in fiscal year 1987).

Corporate Reporting and Accounting— Financial disclosure cases continued to be a high priority in fiscal year 1987. The Commission brought 61 cases containing

significant allegations of financial disclosure violations against issuers, regulated entities or their employees (including 18 actions in which financial disclosure violations were alleged in addition to other primary violations), compared with 35 such cases in 1986.[1] The Commission also brought 11 cases alleging misconduct on the part of accounting firms or their partners or employees in fiscal year 1987, including two of the issuer disclosure cases set forth above.[2] There were 15 enforcement actions against accountants or accounting firms in 1986.

Typical financial disclosure cases involve the improper valuation of assets or liabilities; the improper recognition of revenue or income; the failure to establish sufficient provisions for bad debts or other contingencies; or the failure to provide adequate disclosure concerning the issuer's financial condition. Many cases also involve violations of the accounting provisions of the Foreign Corrupt Practices Act. Financial disclosure cases are often complex and require more resources than other types of cases, but their effective prosecution is essential to preserving the integrity of the disclosure system.

The Commission brought several enforcement actions this fiscal year concerning the adequacy of financial disclosures made by financial institutions. On September 21, 1987, the Commission instituted an injunctive proceeding, *SEC v. Financial Corporation of America (FCA)*,[3] in which it alleged that the holding company for a major savings and loan institution violated the reporting, books and records, and internal controls provisions of the federal securities laws. The complaint alleged, among other things, that FCA improperly and prematurely recognized income from certain real estate transactions, referred to as "buy/sell" transactions, which were designed to conceal FCA's involvement in the transactions and its continuing financial exposure relative to the underlying real estate, causing improper recognition of income of approximately $13.3 million in one year, and $7 million in the next. The Commission also alleged that FCA failed to maintain adequate reserves to cover losses in its loan and real estate portfolio, due to, among other things, a decline in underwriting standards that led to an increased volume of substandard loan assets. It also alleged that FCA improperly recognized income from certain acquisition, development and construction loans. FCA consented to the entry of a permanent injunction and to certain reviews, to be performed by its independent accountants.

On February 27, 1987, the Commission instituted an administrative proceeding, *In the Matter of Continental Illinois Corporation*,[4] against the holding company of Continental Illinois National Bank and Trust Co. of Chicago, one of the largest banks in the United States. The Commission alleged that Continental mischaracterized a substantial portion of the loan loss provision reported in its Form 10-Q for the second quarter of 1984.

Continental characterized $425 million of the nearly $1 billion provision as "loss on sale of loans subject to FDIC agreement." Continental did not disclose, however, that the Office of the Comptroller had directed a $950 million provision for Continental to provide for credit losses in Continental's portfolio prior to the loan sale. The Commission determined that it was materially misleading for Continental to attribute the $425 million, which was clearly part of the $950 million provision, to the event of the sale. Continental consented to a Commission order directing it, among other things, to comply with various provisions of the Exchange Act, and to

restate its financial statements to properly characterize the $425 million provision.

On August 17, 1987, the Commission instituted an administrative proceeding, *In the Matter of Texas Commerce Bancshares, Inc. (TCB)*,[5] in which it found that TCB, a bank holding company, failed to have in place an adequate loan loss review system, and that as a result, the consolidated loan loss reserve for TCB, as of December 31, 1984, was understated by $28.2 million.

The Commission pointed out four factors which played key roles in creating the system's inadequacy: (1) substantial growth in TCB's aggregate loan portfolio through the relevant period; (2) TCB's failure to adapt its loan review system to the increased loan level; (3) TCB's failure to give sufficient emphasis to an ongoing assessment of the loan portfolio; and (4) TCB's reliance on loan officers (rather than on a separate loan review function) to identify problem loans on a continuing basis.

TCB consented to the issuance of an order requiring it to comply with the reporting, books and records, and internal controls provisions of the Exchange Act, and to comply with certain undertakings.

On August 10, 1987, the Commission instituted administrative proceedings, *In the Matter of DeLaurentiis Entertainment Group, Inc. (DEG)*,[6] in which it found that DEG, a company engaged in the financing, production and distribution of motion pictures, violated the books and records and internal control provisions of the Exchange Act. The Commission found that DEG incorrectly capitalized approximately $1.5 million in interest costs that should have been expensed, and at the same time expensed an approximately equivalent amount of selling, general and administrative costs, and other costs, which should have been capitalized as production costs.

It also found that DEG's books and records and system of internal controls failed to adequately reflect such transactions, and led to the serious compromise of the accuracy of DEG's financial statements. DEG consented to the Commission's order which required it to comply with the books and records and internal control provisions of the Exchange Act and to comply with its undertakings to put in place certain remedial procedures.

Included in Commission enforcement actions against independent accountants who examine and issue opinions on an issuer's financial statements is *SEC v. Grant Thornton, et al.*,[7] an injunctive action which was filed on October 16, 1986. The Commission alleged that Grant Thornton (formerly Alexander Grant & Co.) violated the antifraud provisions of the federal securities laws in connection with the issuance of audit reports based on its examination of the financial statements of ESM Government Securities, Inc. (ESM), a broker-dealer principally engaged in government securities repurchase transactions. The Commission alleged that the audits were not conducted in accordance with Generally Accepted Auditing Standards (GAAS), and that the financial statements were not prepared in accordance with Generally Accepted Accounting Principles (GAAP).

The Commission alleged that many of the audit deficiencies stemmed from Grant Thornton's failure to understand the nature of the business of ESM. The complaint also alleged one of the individual defendants, a partner at the firm, became aware that Jose L. Gomez, the partner with primary responsibility for ESM, had taken money from ESM principals, thereby compromising his independence. The defendants consented to the entry of permanent injunctions.

On March 25, 1987, the Commission brought an administrative proceeding, pursuant to Rule 2(e) of its Rules of Practice, against KMG Main Hurdman,[8] a firm of certified public accountants, alleging that Main Hurdman engaged in improper professional conduct in connection with the audits of the First National Bank of Midland, Texas (FNBM), and of Time Energy Systems, Inc. In the case of FNBM, the Commission alleged that a sale and leaseback of the bank's principal properties was not recorded in accordance with GAAP and was structured to allow the reporting of a profit in 1982. The Time Energy financial statements allegedly violated GAAP by prematurely recording incentive and management fees from research and development contracts entered into with various limited partnerships with which it conducted business.

Main Hurdman consented to the entry of a Commission order in which it was censured and ordered to comply with certain undertakings, including undergoing an augmented peer review and documenting certain internal consultations on auditing questions.

The Commission brought five cases primarily involving the misrepresentation of or failure to disclose information concerning related party transactions, the compensation of officers, or other matters during fiscal year 1987. The Commission also brought 23 delinquent filing actions during the fiscal year, compared with 18 in 1986.

Insider Trading—Insider trading refers generally to the act of purchasing or selling securities in breach of a fiduciary duty or a relationship of trust or confidence, while in possession of material nonpublic information about an issuer or the trading market for an issuer's securities. The federal securities laws prohibit such trading not only by corporate officers and directors and other persons having a relationship of trust or confidence with the issuer or its shareholders, but also by persons who misappropriate material nonpublic information from sources other than the issuer. The tippees of any such person may also be subject to the prohibition.

The Commission's insider trading enforcement program achieved record results in fiscal year 1987. The Commission brought 36 cases in which insider trading was the primary violation alleged, including several of the most significant insider trading cases ever brought by the Commission. Insider trading violations were also alleged in an additional six cases, which were primarily financial disclosure cases.[9]

On November 14, 1986, the Commission instituted the largest insider trading case in its history against arbitrageur Ivan F. Boesky.[10] The Commission alleged that Boesky caused certain affiliated entities to trade in securities while in possession of material nonpublic information concerning tender offers, mergers, and other extraordinary corporate transactions. Boesky was alleged to have obtained this information from investment banker Dennis B. Levine, who previously had been enjoined in a Commission action brought in May 1986.

As part of a settlement of that action, Boesky consented to the entry of an order of permanent injunction. He paid $50 million in cash as disgorgement of profits obtained by his affiliated entities as a result of the illegal insider trading, and paid a penalty consisting of securities which had an estimated aggregate value of $50 million. Boesky also consented to the entry of an administrative order permanently

barring him from the securities industry.[11] Additionally he pleaded guilty to a federal felony charge of conspiracy to make false filings with the Commission. Boesky thereafter cooperated with the Commission in its continuing investigation, which resulted in several additional significant cases during fiscal year 1987.

On February 13, 1987, in *SEC v. Martin A. Siegel*,[12] the Commission filed an injunctive action against an investment banker, alleging that he disclosed to Boesky material nonpublic information which he obtained by virtue of his employment. Siegel allegedly disclosed the information to Boesky under circumstances in which Siegel knew that Boesky would cause certain affiliated entities to trade while in possession of the information. Siegel allegedly received approximately $700,000 from Boesky in return for the information.

Siegel consented to the entry of a permanent injunction and agreed to disgorge cash or cash equivalents in the amount of approximately $4.25 million. Siegel also agreed to disgorge his ownership interest in securities of the investment banking firm which employed him at the time of the action and in partnerships sponsored by that firm or its subsidiaries. Siegel also consented to the entry of an order barring him from the securities industry,[13] and pleaded guilty to two felony charges arising out of insider trading violations.

On June 4, 1987, the Commission instituted an injunctive action against Kidder Peabody & Co., Inc.,[14] alleging that it traded securities while in possession of material nonpublic information. The information was allegedly disclosed to Kidder through Siegel, who was then a senior mergers and acquisitions professional at Kidder, by an arbitrageur at an investment bank.

At the time, Siegel was also involved in risk arbitrage activities at Kidder. The Commission alleged that the Kidder risk arbitrage account purchased and sold securities and options based on information provided relating to tender offers, mergers, leveraged buyouts and other business combinations or extraordinary corporate transactions.

The complaint also alleged, as a separate matter, that Kidder illegally "parked" securities on behalf of entities controlled by Boesky, by holding securities transferred from Seemala Corporation, a broker-dealer controlled by Boesky, subject to an agreement that Seemala would repurchase the securities shortly thereafter, and would bear responsibility for all profits and losses from the transactions. Such transfers, among others, enabled Seemala to conceal its inability to maintain the minimum net capital required of broker-dealers by the Commission.

Kidder consented to an injunction and was ordered to pay a total of $25,294,775. Total disgorgement equaled $13,676,101. The remaining $11,618,674 represented a double ITSA penalty.

In a separate administrative proceeding,[15] the Commission censured Kidder and ordered the firm to comply with its undertakings to retain a consultant to review its policies and procedures. Kidder further consented not to resume previously terminated risk arbitrage trading activities before adopting the procedures recommended by the consultant and special compliance procedures pertaining to risk arbitrage trading. Kidder also agreed to cooperate with the Commission's continuing investigation of these matters.

The Commission's continuing investigation has also led to the filing of several cases involving securities law violations other than insider trading. In *SEC v. Boyd*

L. Jefferies, et al.,[16] for example, the Commission alleged that the defendants violated the securities laws by engaging in market manipulation and in the the "parking" of securities.

Among other things, the Commission's complaint alleged that Boyd L. Jefferies, then owner of Jefferies & Co., a broker-dealer, entered into an agreement with Boesky to "park" stock on behalf of Seemala Corporation. The Commission further alleged that securities parked at Jefferies & Co. dropped substantially in value, leaving Jefferies & Co. with an approximate $3.6 million loss when it "sold" the securities back to Seemala. Boesky then paid Jefferies & Co. $3 million pursuant to a false invoice created by Jefferies & Co. for purported "investment advisory and corporate financial services" rendered. The complaint also alleged that Jefferies & Co. parked its own securities at various Boesky entities, including Seemala, under a similar arrangement. Each of the defendants consented to the entry of a permanent injunction and agreed to cooperate with the Commission in its continuing investigation.

In a related administrative proceeding,[17] Jefferies consented to an order barring him from the securities industry, with a proviso that Jefferies may apply for re-entry into the securities industry after the greater of five years or the period of any penalty imposed on him in connection with criminal proceedings. Jefferies & Co. agreed to a censure and was ordered by the Commission to comply with its undertakings to, among other things, retain an outside consultant and implement recommendations made by that consultant concerning policies and procedures designed to prevent future violations of the securities laws. On April 15, 1987, Jefferies pleaded guilty to two felony charges arising out of the activities which led to the Commission's actions.

In fiscal year 1987, the Commission also brought a number of significant insider trading cases which were not related to the Levine and Boesky investigations.

On December 10, 1986, the Commission filed an action against Michael N. David,[18] formerly an associate with a law firm, alleging that he misappropriated material nonpublic information from the law firm concerning proposed or considered corporate takeovers. David allegedly conveyed the information to persons who traded in the securities of the takeover targets for their own accounts or for an account in which David had a beneficial interest. Those persons also allegedly conveyed the information to others who also traded in the securities of the takeover targets. David consented to the entry of a permanent injunction against future violations, and agreed to disgorge $50,000 and pay a civil penalty not to exceed $100,000.

The Commission's investigation of the insider trading scheme in which David was involved also led to criminal indictments against David and four others for their participation in the scheme. David pleaded guilty to charges against him.

On February 17, 1987, the Commission instituted an action against Israel G. Grossman,[19] a former associate at a law firm, and six others for trading while in possession of material nonpublic information allegedly misappropriated by Grossman from the law firm. The Commission alleged that Grossman misappropriated information concerning a recapitalization of a client, and passed that information on to the other defendants. Those defendants allegedly traded while in possession of the information, realizing illegal profits of approximately $1.5 million. In

supporting papers filed in the action, the Commission alleged that the defendants attempted to conceal their activities from the Commission by fabricating a story concerning the reasons for their trading. At the close of the fiscal year, the case was pending against all seven defendants.

Grossman has been convicted of criminal violations arising out of the insider trading scheme.

On March 11, 1987, the Commission filed *SEC v. Nahum Vaskevitch*,[20] against a former managing director in charge of mergers and acquisitions in the London office of a United States broker-dealer, David Sofer, a businessman, and two entities. The Commission alleged that Vaskevitch provided Sofer with material nonpublic information obtained during the course of his employment concerning mergers, tender offers, and other extraordinary corporate transactions. Sofer allegedly traded while in possession of the information through accounts in the names of the two entities. The defendants allegedly realized over $4 million in illegal profits as a result of the scheme.

On March 30, 1987, an order was entered against the defendants preliminarily enjoining them from future violations of the antifraud provisions of the securities laws, and orders were entered freezing assets, providing for an accounting, and preventing alteration or destruction of documents. At the end of the fiscal year, the case was still in litigation.

Regulated Entities and Associated Persons—The enforcement program area that accounts for the largest number of cases involves regulated entities such as broker-dealers, investment companies, investment advisers and transfer agents.

Ensuring that regulated entities conduct their business with integrity and fairness is a consistent priority with the Commission. The Commission commenced 117 enforcement proceedings involving regulated entities during fiscal year 1987. Seventeen of these cases involved securities offerings violations by regulated entities. Of the other cases, 75 were brought against broker-dealers or persons associated with broker-dealers, 18 primarily involved investment advisers, and six primarily involved investment companies.

Broker-dealer cases generally involve violations such as fraudulent sales practices, violations of the net capital and customer protection provisions, or broker-dealer books and records violations. On June 15, 1987, the Commission instituted a proceeding, in which it found that Shearson Lehman Brothers, Inc.,[21] a broker-dealer, on multiple occasions improperly used customers' securities for stock loans. In violation of the customer protection provisions of the Exchange Act, the securities were delivered out of safekeeping before receipt of anticipated deliveries of equivalent securities had been verified. In the largest such transaction, the broker-dealer improperly used customer's securities worth $69 million. Shearson Lehman consented to a Commission order censuring it and ordering it to comply with its undertakings to implement procedures and establish policies to prevent a recurrence of the violations.

The Commission's financial recordkeeping and reporting provisions require broker-dealers subject to the Currency and Foreign Transaction Reporting Act of 1970 to report currency deposits in excess of $10,000. On February 27, 1987, the Commission filed an administrative proceeding, in which it found that Dean Witter

Reynolds, Inc. failed to file such reports in repeated instances.[22] Dean Witter, by consent, was censured and ordered to comply with its undertakings to implement procedures designed to correct its reporting deficiencies, and to have its compliance with such procedures reviewed by an independent public accountant.

In January 1987, the Commission instituted administrative proceedings, *In the Matter of Advest, Inc.*,[23] concerning alleged customer overcharges for mutual fund sales commissions. The broker-dealer revised its compliance procedures and refunded to customers over $600,000 after the Commission staff notified it of the problem. The broker-dealer consented to a Commission order finding that it had failed to ensure against such overcharges and censuring it for having failed reasonably to supervise its registered representatives to prevent such overcharges. At the end of the fiscal year the case remained pending against other respondents.

During fiscal year 1987, the Commission revoked the registration of 11 firms, suspended 18 and censured 15. This compares with seven revocations, eight suspensions, and 15 censures in fiscal year 1986. Also during the fiscal year 79 individuals were barred, 26 suspended, and three censured, as compared to 58 bars, 20 suspensions, and 11 censures in 1986.

Securities Offering Violations—Some issuers fail to register public offerings of their securities, although required to do so by the Securities Act. Some purport to rely on exemptions to registration requirements which are not available. Some violate antifraud provisions of the federal securities laws by making material misrepresentations or omissions in connection with a securities offering. There were 40 cases principally involving offering violations by issuers and other persons brought during fiscal year 1987. (This figure does not include 17 cases principally involving offering violations on the part of regulated entities, which are discussed above).

This past fiscal year, the Commission instituted a series of proceedings concerning so-called "blank-check" offerings, registered offerings in which the proposed use of proceeds has not been disclosed. Such offerings have been the subject of abuse by promoters and entrepreneurs in various parts of the country, who have used them in connection with a variety of schemes. For example, on February 13, 1987, the Commission filed an injunctive action alleging that Steven A. Keyser,[24] former president of L'Oiseau Bleu Corporation which had a registered offering in November 1985 for the stated purpose of engaging "in the acquisition of business endeavors in one or more industries", diverted almost all of the offering proceeds to his own use. The case was pending at the end of the fiscal year.

On June 2, 1987, the Commission suspended the Regulation A exemption from the registration requirements of the Securities Act of Gin Enterprises, Inc., based on, among other things, the failure to disclose the involvement of the conflict of interest of George L. Norman, the promoter of the offering, who was also an affiliate and promoter of 18 other blank-check offerings.[25]

In a separate proceeding, the Commission instituted administrative proceedings pursuant to Rule 2(e) of the Commission's Rules of Practice against Myron E. Berryman,[26] auditor of the financial statements of the registration statements or offering circulars filed for each of the 18 public offerings. Citing identical deficiencies in each of the 18 audit reports, the Commission concluded that the auditor failed to obtain sufficient evidence to provide a reasonable basis for the reports, and that

such failure to comply with GAAS constituted improper professional conduct. Berryman consented to the issuance of a Commission order permanently suspending him from appearing before the Commission, but providing that after two years he may apply to resume appearing before the Commission upon fulfilling certain conditions.

On March 31, 1987, the Commission instituted an injunctive action against Charles Phillip Elliott and others involved in the operation of an alleged unregistered broker-dealer.[27] The complaint alleged that the defendants obtained at least $50 million from at least 1000 investors through the sale of unregistered debt securities, and that they failed to disclose, among other things, that securities purportedly pledged as collateral for the investments were routinely rehypothecated. Elliot and the various entities through which he operated consented to the entry of a permanent injunction, to an accounting of proceeds received, and to disgorgement of an amount to be determined by the court at a later date. A temporary restraining order was entered by the court against the two remaining defendants.

Market Manipulation—The Commission is charged with ensuring the integrity of trading on the national securities exchanges and in the over-the-counter markets. The Commission staff, the exchanges and the NASD engage in surveillance of these markets. The Commission brought 12 cases primarily involving market manipulation during fiscal year 1987, compared with 14 in 1986. One of these cases was *SEC v. Boyd L. Jefferies, et al.*, discussed above.

On April 9, 1987, the Commission filed an action, *SEC v. Andrew Nanos, et al.*,[28] in which it alleged that the six defendants violated the antifraud and the beneficial ownership provisions of the federal securities laws. The Commission alleged, among other things, that the defendants manipulated the market in a stock which had been the subject of a negative news article by placing purchase orders for the stock with numerous broker-dealers in order to prevent a price decrease. The case was pending at the close of the fiscal year.

Changes in Corporate Control—Section 13 and 14 of the Exchange Act govern proxy solicitations and the filing of reports by persons or groups who make a tender offer or acquire beneficial ownership of more than five percent of a class of equity securities registered with the Commission. These requirements are intended to ensure that investors have the material information needed to make informed investment or voting decisions concerning potential changes in the control of a corporation. During fiscal year 1987, the Commission brought four enforcement actions which were primarily corporate control cases, compared to six in 1986.

On July 22, 1987, the Commission issued an order in an administrative proceeding, finding that Allied Stores Corporation[29] violated the tender offer solicitation provisions of the Exchange Act by failing properly to disclose steps taken by Allied in response to a tender offer, including adoption of a resolution by Allied's board of directors directing management to execute a merger agreement with a third party. Allied consented to the entry of the Commission order to comply with such provisions in the future.

The administrative proceeding was pending at fiscal year end against the attorney for Allied Stores, who was named as a respondent.

Sources for Further Inquiry—The Commission publishes in the SEC Docket litigation releases which describe its civil injunctive actions and criminal proceedings involving securities-related violations. Among other things, these releases report the identity of the defendants, the nature of the alleged violative conduct, and the disposition or status of the case. Commission orders that institute administrative proceedings or provide remedial relief also are published in the SEC Docket.

Full Disclosure System

Key 1987 Results

The full disclosure system is administered by the Division of Corporation Finance. The disclosure system is designed to provide investors with full and accurate material information, foster investor confidence, contribute to the maintenance of fair and orderly markets, facilitate capital formation, and inhibit fraud in the public trading, voting, purchase, and sale of securities.

Administration of the full disclosure program was affected by a number of legal and economic developments in fiscal year 1987. The passage of the Tax Reform Act of 1986 on October 22, 1986, required the dedication of substantial staff resources in the first quarter of the year to accommodate the large number of filings made on an accelerated time schedule to assure certain tax consequences. The 1986-87 proxy season in the second and third quarters was characterized by over two thousand issuers that sought shareholder approval of the implementation of new state corporate law provisions allowing for reducing director liabilities and broadening indemnification of corporate officers and directors. The new issue market continued to flourish, with registration statements for initial public offerings under the Securities Act of 1933 (Securities Act) approximating fiscal year 1986's high. Approximately 43 percent of the regionally filed registration statements filed in fiscal year 1987 covered blank check offerings.

Corporate acquisitions and restructurings were also at high levels. In fiscal year 1987, 215 third party tender offers with a value of $85.5 billion were commenced, representing a 47 percent increase over 146 offers with a value of $54 billion in fiscal year 1986. In view of the increasing complexity and multiplicity of accounting issues arising in the filing review process, the Division hired 30 accountants during the year. This effort is part of the Division's on-going program to have at least 50 percent of its review staff comprised of accountants.

The active acquisition market was evidenced in the 328 merger proxy filings and the 209 going-private transactions filed during the year. That market was also characterized by an increasing use of bridge loans financed by investment banking firms and high-yield debt securities (junk bonds). Proxy contests, which decreased substantially for most of fiscal year 1987, increased during the last quarter to bring the year end total to nearly the same level as fiscal year 1986. Asset-backed financings continued to increase, including those backed by credit card receivables, automobile loans, residential mortgage obligations, commercial mortgage leases, Mack Truck loans, and loans made by the Federal Farmers Home Administration. New instruments continued to proliferate with offerings of reverse principal exchange-rate linked securities (PERLS), liquid yield option notes (LYONS), and currency exchange warrants (CEWS) being filed.

In legislative, rulemaking and interpretive matters, the Commission took action on a wide range of issues. The Commission adopted a rule that eliminates the need to file most pricing amendments to Securities Act registration statements. In the

tender offer area, the Commission proposed for comment rules to govern "market sweeps" and in an interpretive release, reiterated its view that material changes in the terms of a tender offer must be disseminated in a manner that gives security holders sufficient time to consider and act on the new information. The Commission also proposed to eliminate the requirement to file proxy statements in preliminary form where the shareholders at an annual meeting will consider only the election of directors, selection of auditors and certain shareholder proposals.

Amendments to modernize the Trust Indenture Act were recommended for submission to the Congress.

Full Disclosure Filings Given a Full Review

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987
Total Filings	6,987	7,237	9,571	10,526	10,797
Securities Act Registrations					
New Issuers	1,746	1,572	1,171	1,775	1,949
Repeat Issuers	256	586	597	807	775
Post-effective Amendments	433	519	617	695	707°
10-K Annual Reports	1,012*	1,283*	2,135*	1,741*	1,389*
Tender Offers (14D-1)	92	121	148	146	215
Proxy Contests	60	60	86	68	65
Merger Proxies	165	181	255	240	248
Annual Meeting Proxies	895	1,217	1,683	1,629	3,046

° Excludes reviews of certain amendments to post-effective registration statements filed in response to staff comments on a prior post-effective filing.

* Includes reports reviewed in connection with other filings.

In fiscal year 1987, 82,883 full disclosure filings were made with the Commission, an increase of 8 percent over fiscal year 1986. The number of registration statements filed under the Securities Act increased to 7,708 from 7,358 filings in fiscal year 1986. This includes 2,233 and 2,182 filings, respectively, by issuers who had not previously offered securities to the public.

During fiscal year 1987, the staff fully reviewed financial statements of 3,865 registrants. This was accomplished through the full review of, among other things, 1,949 and 187 registration statements filed by new issuers under the Securities Act and the Securities Exchange Act of 1934 (Exchange Act), respectively; 775 registration statements filed under the Securities Act by issuers with existing public security holders; 1,389 annual reports filed by issuers under the Exchange Act; and full financial statement reviews of 60 issuers. The staff also fully reviewed annual meeting proxy statements of 3,046 issuers, and 65 proxy contest filings. The substantial increase in reviews of annual meeting proxy statements from the fiscal year 1986 level (1,629) was due primarily to issuers adopting new officer and director liability and indemnification provisions provided for under state law. During the year, 248 merger proxies and 215 third-party tender offer and 209 going private transactions were reviewed.

Rulemaking, Interpretive, and Legislative Matters

Pricing Amendments

On May 27, 1987, the Commission adopted new Rule 430A under the Securities Act,[30] which was proposed earlier in the year. The rule allows registrants, under specified conditions, to omit information on the public offering price, other matters dependent upon the public offering price, terms of the securities dependent upon the offering date, and the underwriting syndicate from the form of prospectus filed as part of a registration statement that is declared effective. Rule 430A requires that the omitted information be contained in a prospectus filed within a specified time frame or in a post-effective amendment. Also adopted were amendments to the filing rules for prospectuses used after effectiveness, which eliminate unnecessary filings, classify prospectuses according to the nature of the information being added or modified, and shorten the filing period.

Tender Offers

On October 1, 1987, the Commission published for comment proposed rules that would govern certain acquisitions undertaken during and shortly after a conventional tender offer for securities of the same class and related activities.[31] With certain exceptions the proposed rules would require that purchases, offers to purchase, arrangements or understandings to purchase and solicitations of offers to sell securities undertaken during and shortly after a tender offer that would increase any person's ownership of the class of securities subject to the tender offer by 10 percent or more of the class be made in compliance with the statutory provisions and rules applicable to tender offers.

The Commission issued an interpretive release on April 3, 1987, with respect to the disclosure and dissemination of material changes in the terms of tender offers.[32] The Commission expressed its view that a waiver of a minimum share condition is a material change in the terms of the offer and reiterated its view that material changes must be disseminated in a manner reasonably calculated to inform security holders of such changes and within sufficient time for them to consider and act on such new information, generally a minimum of five to ten business days.

Proxy Rules

On June 4, 1987, the Commission published for comment a proposal to eliminate the requirement to file proxy or information statements in preliminary form where the only matters to be considered at an annual shareholder meeting are the election of directors, selection of auditors and/or certain shareholder proposals.[33] The Commission also proposed certain amendments to the shareholder proposal rule, including the deletion or modification of the provision for exclusion of a shareholder proposal where a proponent delivers written proxy materials to holders of more than 25% of a class of the registrant's securities.

On May 21, 1987, the Commission adopted amendments, proposed earlier in the year, to its proxy rules and certain other rules. The amendments conformed further the proxy disclosure for mergers and similar transactions to that required

for registration of securities in certain business combinations. They also clarified the timing requirements for such transactions where incorporation by reference is used.[34] The Commission also adopted a rule concerning modified or superseded statements in documents incorporated by reference into a proxy statement.

Shareholder Communications

On March 27, 1987, and June 18, 1987, the Commission published for comment proposals that would exclude, on an optional or mandatory basis, specified employee benefit plan participants from the operation of the proxy processing and/or direct communications provisions of the shareholder communications rules.[35] Under these alternative proposals, an employee benefit plan participant would not receive proxy material through brokers and banks in accordance with the proxy processing provisions of the shareholder communications rules where (1) the plan provides a mechanism for forwarding such materials to plan participants; or (2) the registrant has access to participant names and addresses and is not prohibited from communicating with them, with the registrant required to cause proxy material to be furnished to plan participants. The alternative proposals also provide for exclusion of plan participants from the direct communications provisions if the registrant otherwise has access to the names and addresses of such beneficial owners.

Prospectus Delivery Requirements

On December 18, 1986, the Commission published for comment alternative proposals to reduce the 40 or 90 day period during which dealers must deliver prospectuses in aftermarket securities transactions following public offerings.[36] Both of the proposals would provide relief, under certain circumstances, with respect to aftermarket transactions in the securities of issuers not subject to the periodic reporting requirements under the Exchange Act prior to filing their registration statements.

On July 31, 1987, the Commission published for comment two alternative proposals for a new Rule 433 concerning the timing of delivery to investors of a prospectus meeting the requirements of Section 10(a) of the Securities Act.[37] The proposals would permit, if all conditions are satisfied, the sending of a final prospectus no later than five business days after a confirmation of sale is sent to a purchaser in a registered firm commitment offering of securities for cash.

Exempt Private Offerings

On January 2, 1987,[38] the Commission published for comment proposed amendments to Regulation D and Rule 215 and solicited comments on other possible revisions of Regulation D, including the application of a good faith compliance standard. The Regulation D amendments, as proposed, would (1) expand the accredited investor definition under Rule 501, (2) raise the offering ceiling and expand the availability of general solicitation under Rule 504, and (3) make certain technical amendments to Regulation D in an effort to clarify the rules of the regulation and to codify certain staff interpretations under the regulation.

Employee Benefit Plans

On January 2, 1987, the Commission proposed new Rules 701, 702 and 703, which would provide an exemption from the registration requirements of the Securities Act for limited offers and sales of securities in connection with compensatory employee benefit plans by issuers not subject to Exchange Act reporting requirements.[39] As a result of public comments on the proposal, the rules were revised and reproposed in August 1987.[40]

Management's Discussion and Analysis

The Commission published a concept release on April 17, 1987, discussing the disclosure required by Management's Discussion and Analysis and requesting public comment on the adequacy of these requirements.[41] The Commission specifically requested comment on recent recommendations by several accounting firms that Management's Discussion and Analysis contain more risk disclosure and be subject to audit.[42] The Commission is reviewing comments made in response to this release to determine whether any rulemaking is appropriate.

Classification of Issuers

A concept release was issued by the Commission on July 8, 1986,[43] requesting information and suggestions from the public concerning possible substitute or supplementary threshold criteria governing entry into and exit from the Exchange Act reporting requirements. In addition, a study was commissioned on the effect of those requirements on small businesses. The study, which is being conducted by The SEC and the Financial Reporting Institute of the University of Southern California, is expected to be completed and a final report issued in fiscal year 1988.

Publication of No-Action and Interpretive Letters

On September 22, 1987, the Commission published for comment a proposal that, with certain exceptions, would provide for the expedited publication of interpretive and no-action correspondence at the time a response is sent or given to the requesting party, unless temporary confidential treatment is granted.[44] The Commission also proposed to codify the application of the existing publication rule to certain exemption letters.

Trust Indenture Legislative Proposal

On November 30, 1987, the Commission submitted its recommendations for amendment of the Trust Indenture Act to Congress. If enacted, the proposed bill, entitled the Trust Indenture Reform Act of 1987, will comprehensively modernize federal regulation of publicly-offered debt securities. Under the proposed bill, mandatory indenture terms would be self-executing and imposed by law, a measure that will simplify preparation of indentures. Conflicts of interest would be relevant to a trustee's eligibility only after default. The proposal would also broaden the Commission's exemptive authority to allow variation from the statute in appropriate circumstances and would conditionally allow foreign trusteeships.

Internationalization

On July 29, 1987, the staff sent to Congress a report on the internationalization of the securities market. The report included a chapter prepared by the Division on the disclosure and distribution standards in multinational and international issues of securities. The chapter included a descriptive analysis of the international financial markets and the effects of regulation on these markets. An overview of United States distribution and disclosure practices that affect foreign issuers, and the disclosure, distribution, and tender offer practices in several nations other than the United States were also discussed. The discussion concluded with an evaluation of the major issues and problems raised by international offerings.

Conferences

SEC Government-Business Forum on Small Business Capital Formation

The sixth annual SEC Government-Business Forum on Small Business Capital Formation was held in Washington, D.C. on September 14-15, 1987. Approximately 150 small business executives, accountants, attorneys, government officials and other small business representatives were in attendance. The format of this year's conference was structured around a series of lectures and discussion groups on federal, state and local equity financing programs and other more traditional equity financing techniques such as venture capital, securities offerings and employee stock option plans. The final report on the conference, which is issued to Congress and available to the public, will be presented this year in an informational-type pamphlet rather than setting forth a list of recommendations for legislative and regulatory changes in the area of small business capital formation which has been the basis for the final reports for most of the previous forums.

SEC/NASAA Conference under Section 19(c) of the Securities Act

In April 1987, approximately 35 senior staff officials of the Commission met with representatives of the North American Securities Administrators Association Inc. in Baltimore, Maryland, to discuss methods of effectuating greater uniformity in federal and state securities matters. Following the conference, the staff issued a final report that described two resolutions that were approved, summarized the discussions of the working groups, and identified conference participants.

Accounting and Auditing Matters

Key 1987 Results

The federal securities laws provide for the audit of financial statements of publicly held corporations by independent accountants. Thus, those laws have placed upon the accountant important responsibilities in facilitating the capital formation processes, and as a result, the economy as a whole.

Today, the accounting profession is subject to a unique combination of public and private sector initiatives that is designed to ensure that the profession meets its public responsibilities. These initiatives include peer review and other membership requirements of the American Institute of Certified Public Accountants' (AICPA) Division for CPA Firms, private sector standards-setting, the Commission's programs (including oversight of private sector initiatives), state licensing activities and private civil litigation against accounting firms. This framework has been built over time and is subject to continued refinements and improvements.

The primary Commission programs for ensuring compliance with the accounting and financial disclosure aspects of federal securities laws are:

- *Rulemaking* initiatives which supplement accounting standards, implement financial disclosures and establish independence criteria for accountants;
- The *review and comment process* which results in improvement of filings, identification of emerging accounting issues (which can result in rulemaking or private sector standards-setting), and identification of problems warranting enforcement actions;
- The *enforcement program*, which imposes legal sanctions and serves to deter irregularities by enhancing the care with which registrants and their accountants analyze accounting issues; and
- *Oversight* of private sector efforts to establish accounting and auditing standards, and to improve the quality of audit practice.

The Commission's direct efforts are multiplied by the efforts of the Financial Accounting Standards Board (FASB), the AICPA and other activities of the profession under Commission oversight. In addition to Commission enforcement actions, significant numbers of actions are brought by private litigants, many of which are a direct result of Commission actions.

The cumulative effect of the Commission's programs, private sector initiatives and civil litigation comprises a comprehensive system under which the integrity of financial reporting for public companies is constantly being challenged, modified and improved. The Commission's review and comment process and enforcement programs are discussed elsewhere in this report. The remainder of this section summarizes the Commission's accounting-related rules and interpretations and the oversight function.

Accounting-Related Rules and Interpretations

Regulation S-X provides guidance as to the form and content of financial statements filed with the Commission. The Commission has also adopted various rules

that specify disclosure of financial information outside of the financial statements. For example, certain supplementary financial information, selected financial data and a management's discussion and analysis of the company's financial condition and results of operations are required by Regulation S-K.

To address significant accounting issues, the Commission may issue interpretive releases and, when announcing rule changes, provide guidance for compliance with new or amended rules. In addition, the Commission staff periodically issues Staff Accounting Bulletins (SABs) to inform the financial community of its views on accounting and disclosure issues.

As for rulemaking initiatives, the Commission, during the past fiscal year, adopted rules which improve and simplify disclosures made by bank holding companies about loans to borrowers in countries experiencing liquidity problems.[45] The Commission also amended its rules to delete certain requirements to disclose the effects of inflation and changing prices called for by Statement of Financial Accounting Standards No. 33 to conform with a similar action taken by the FASB.[46] In announcing this action, the Commission emphasized that registrants will continue to be required to discuss the effects of inflation within Management's Discussion and Analysis, when material. The Commission also issued a concept release on Management's Discussion and Analysis based on suggestions from major accounting firms.[47]

In the interpretive area, a release was issued to address various matters relating to accounting for loan losses by registrants engaged in lending activities.[48]

In addition to requiring financial disclosure of registrants, Commission rules also address the qualifications of accountants, including their independence and accountants' reports on financial statements, and require disclosure about a registrant's public accountants. In April 1987, the Commission issued proposed rules which would require all accountants of public companies to undergo peer review.[49] The Commission's proposal would require that financial statements included in filings be certified by an independent accountant that had undergone a peer review of its accounting and auditing practice within the three years prior to the filing and has established and is complying with an audit quality control system meeting the requirements under generally accepted auditing standards. The proposal contains certain peer review standards, minimum requirements for a peer review organization, and a procedure whereby the final authority to determine whether an accountant may continue to practice before the Commission rests with the Commission. This procedure would be used when a public accounting firm failed to remedy material deficiencies in its quality controls. The comment period expired July 9, 1987, and comment letters are presently being reviewed by the staff with a view toward developing recommendations for Commission consideration.

On June 18, 1987, the Commission published for comment a proposal to amend the disclosure requirements related to a registrant's change in independent accountants. If adopted, the proposed item would require disclosure by the registrant of issues related to the registrant's financial statements discussed with the new accountant during approximately the two years prior to its engagement.[50] The views of the new and old accountants on those issues would be summarized by the registrant, and the names of other accountants consulted on those issues (and the extent their views materially differed from the new accountant's views) would be

disclosed. Also, amendments to the current requirement to disclose disagreements with the former auditor were proposed to clarify when such disagreements are deemed to have occurred. The comment period expired September 24, 1987, and the staff is in the process for developing recommendations for Commission consideration.

During fiscal year 1987, SABs were issued regarding (1) risk sharing in business combinations accounted for as poolings of interest; (2) disclosure by bank holding companies regarding loans to countries experiencing liquidity problems; (3) the appropriate income statement presentation of restructuring charges; (4) accounting for increasing rate preferred stock; (5) the appropriate disclosure of lending and deposit activities by financial institutions other than bank holding companies; (6) accounting for non-recourse debt collateralized by lease receivables; and (7) financial statements of properties securing mortgage loans.[51]

Oversight of Private Sector Standards-Setting

In addition to its direct action through rulemaking and other programs, the Commission monitors the structure, activity and decisions of the private sector standards-setting organizations.

FASB—Although the Commission has adopted Regulation S-X, promulgated other rules and disclosure requirements in the financial reporting area, and has published interpretations and guidance where necessary, it has generally refrained from prescribing the accounting methods to be followed in the preparation of financial statements.

In lieu of specifying accounting principles, the Commission has presumed financial statements to be misleading or inaccurate unless prepared in accordance with accounting principles which have substantial authoritative support. Under this concept, the Commission looks to the FASB to provide the initiative in establishing and improving accounting principles. Oversight of the process involves not only Commission review of the standards set, but also the direct participation of staff members and, in some instances, the Commission itself in the initial setting of standards.

Staff members monitor developments closely and are in frequent contact with the FASB, participate in meetings, public hearings, and task forces. The Commission monitors the progress of FASB projects and meets periodically with the FASB to discuss topical issues.

Financial Instruments—In fiscal year 1986, the FASB (in response to a recommendation from the Commission's Chief Accountant) added a major long-term project to its agenda that will address financial instruments and off balance sheet financing issues. The project is comprised of several parts, some of which will be developed simultaneously. Significant parts of the project include (a) disclosure about financial assets and transactions, (b) accounting for risk-transfer instruments such as guarantees and interest rate hedging instruments, (c) off balance-sheet financing arrangements, (d) the appropriate measurement basis for financial instruments; and (e) accounting for securities with both debt and equity characteristics.

Subsequent to fiscal year end, the FASB issued an exposure draft which would require certain disclosures about financial assets and liabilities now carried in the

balance sheet and obligations, commitments and guarantees not now recognized in financial statements.[52]

Consolidations and the Equity Method—In November 1987, the FASB issued a statement requiring consolidation of all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner.[53] This statement is part of a broader project which includes development of a concept of the reporting entity, and its application to the issue of consolidation policy.

Cash Flow Reporting—The FASB issued a statement requiring a statement of cash flows to be presented as part of a full set of financial statements of all business enterprises, replacing the statement of changes in financial position.[54]

Income Taxes—Subsequent to fiscal year end, the FASB issued a statement on accounting for income taxes. The statement represents a significant change in the method of accounting for income taxes by adopting a liability approach to the issue of comprehensive interperiod tax allocation.[55]

Regulated Enterprises—The FASB issued statements on accounting for abandonments and disallowances of plant costs and accounting for phase-in plans.[56] Both of these statements involve rate-regulated enterprises and represent amendments to Statement of Financial Accounting Standards No. 71.

Other Projects—Other significant projects on the FASB's technical agenda include stock compensation plans, sales and leasebacks involving real estate, postemployment benefits other than pensions and accounting for universal life insurance.

Timely Financial Reporting Guidance—Encouraged by the Commission, the FASB has continued its efforts to provide more timely guidance on emerging issues. Technical bulletins issued in fiscal year 1987 by the FASB staff included guidance on accounting for (a) certain effects of the Tax Reform Act;[57] (b) interests in the residual value of a leased asset;[58] and (c) changes in the method of accounting for certain postretirement benefits.[59] In addition, a technical bulletin concerning accounting for mortgage servicing fees and rights was finalized after fiscal year end.[60]

Also, the Emerging Issues Task Force (EITF) (in which the Commission's Chief Accountant plays a significant role) has discussed over 150 issues since its inception in 1984, covering a range of specific issues such as financial instruments and financial institutions, business combinations, and income taxes. A number of the issues were introduced by or at the request of the Commission. On many issues, the group reached a consensus that either: (a) a single method of accounting is preferable based on existing literature; (b) existing guidance is adequate; or (c) the issue does not present a pervasive problem. Other issues have been referred to the FASB or the AICPA for action or further consideration. The Commission expects the positions agreed upon at those meetings to be followed by registrants. Those that do not follow them will be asked to justify departure from any consensus reached. Based on the work of the EITF to date, the Commission believes that the EITF is performing a useful role in providing timely guidance to registrants and their accountants.

Oversight of the Accounting Profession's Initiatives

In addition to oversight of the private sector process for setting accounting stan-

dards, the Commission also oversees various activities of the accounting profession conducted primarily through the AICPA. These include (a) the Auditing Standards Board (ASB), which establishes generally accepted auditing standards; (b) the Accounting Standards Executive Committee, which provides guidance on specific industry practices and prepares issues papers on accounting topics for consideration by the FASB; and (c) the SEC Practice Section (SECPS) of the Division for CPA Firms, which seeks to improve the quality of accounting firms through various membership requirements including peer review.

The AICPA, along with other organizations, sponsored the National Commission on Fraudulent Financial Reporting (NCFFR), an independent commission which studied issues involved in the prevention and detection of fraud in the context of financial reporting. The NCFFR issued its report in October 1987.[61] The report contains recommendations for the public company, the independent public accountant, and for the Commission and others to improve the regulatory and legal environment. The Commission staff is evaluating these recommendations.

In February 1987, the ASB issued for public comment ten proposed standards which comprise the so-called "Expectation Gap" projects. These proposals include projects relating to the auditor's standard report and auditor responsibilities for detection and reporting of fraud and evaluating an entity's continued existence.[62] The Commission staff is supportive of the ASB's efforts to enhance auditors' communication and responsibilities and is closely monitoring the ASB's progress toward establishing final standards in these areas.

SEC Practice Section—The Commission oversees the activities of the SECPS through frequent contact with the Public Oversight Board (POB) and members of the executive and peer review committees of the SECPS. In addition, the staff reviews POB files and selected working papers of the peer reviewers. The Commission believes the peer review process contributes significantly to improving the quality control systems of member firms and thus should enhance the consistency and quality of practice before the Commission. According to the POB's Annual Report as of June 30, 1987, 395 firms have voluntarily become members of the SECPS, including all firms with 30 clients reporting to the Commission.[63]

Special Investigations Committee—Activities of the Special Investigations Committee (SIC) supplement peer review. The SIC determines whether allegations of failure in the conduct of an audit indicate need for improvements in, or compliance with, quality control systems of the reporting firms, whether changes in professional standards are required, and whether any corrective action taken by the firm was appropriate. The POB monitors the activities of the SIC and has complete access to the process and to SIC files.

The Commission staff also monitors the SIC process. However, as the audits reported to the SIC are generally the subject of litigation, the Commission's access to documentation of the SIC review has been limited. Because of this limited access the Commission does not have a basis for reaching any conclusions about the SIC process. In an effort to find ways to improve the Commission's access to SIC documentation and to address other concerns, the SECPS Executive Committee appointed the Task Force on SIC Methodology. This task force recommended, among other things, that more comprehensive and informative summaries be furnished to the Commission when a case is closed and that the SIC meet

regularly with the Commission staff to discuss concerns the Commission staff may have with actions taken by the SIC as reflected in the summaries and any changes the Commission believes would make the process more effective. The Commission staff, however, has just begun to review SIC documents prepared under the new procedures, and has not yet reached a conclusion as to whether they will enable the Commission to fully assess the effectiveness of the SIC function.

The EDGAR Project

Key 1987 Results

Introduction

The primary purpose of EDGAR is to increase the efficiency and fairness of the securities markets for the benefit of investors, securities issuers, and the economy. Under EDGAR, information will be filed electronically for acceptance and review by the Commission staff. Once accepted, public information also will be rapidly available to investors, the media and others on computer screens via public reference rooms or subscription services. When fully operational, EDGAR will accelerate dramatically the filing, processing, dissemination and analysis of time-sensitive corporate information filed with the Commission.

The EDGAR Pilot system completed its third full year of successful operations on September 24, 1987. It has demonstrated clearly the feasibility of electronic filing and review procedures. Over 20,000 electronic filings have been made since September 1984.

The Commission also continued to move ahead with its plan to develop a fully operational EDGAR system. The Request for Proposals (RFP) was amended to reflect changes in EDGAR funding strategy and released on October 23, 1987.

Pilot System

The Pilot system serves a group of volunteer companies whose filings are processed by the Divisions of Corporation Finance and Investment Management. At the end of fiscal year 1987, 299 corporations plus 198 investment companies and 21 public utilities were filing electronically as fully participating registrants. An additional 700 investment companies participate partially in the Pilot by electronically filing their annual and semi-annual reports on Form N-SAR.

As a consequence of this growth, the Pilot was closed to most new participants as of August 31, 1986. Generally, the only exceptions are for affiliates of current Pilot participants and initial public offerings by registrants whose filings are processed by the Division of Corporation Finance. In addition, Public Utility Holding Company Act filings and Forms N-SAR and 13F-E may be submitted electronically even if the filer is not a current Pilot participant. Companies also may continue to make test filings via the Pilot.

In fiscal year 1987, certain enchancements were added to the Pilot to make electronic filing more convenient and test potential productivity improvements for the operational system. For example, a reference filing capability was added in November 1986. This capability permits filers to submit an electronic reference filing which can then be included in subsequent electronic filings by designation in lieu of retransmission. As a result of this enhancement, the Commission received more than 4,400 reference filings through September 30, 1987. By using the reference

capability, the filers avoided the cost of submitting over 89,000 pages. One reference filing was incorporated into 726 separate electronic documents.

Another Pilot enhancement permits institutional investment managers to file Form 13F voluntarily on magnetic tape using temporary Form 13F-E. Participating investment managers that maintain 13F information on a computer will no longer need to transmit paper copies of these reports to the Commission. As more filers submit Form 13F-E electronically, there will be more rapid compilation and dissemination of summary information. Processing of Form 13F-E tapes includes automated receipt and acceptance procedures that are more efficient than the procedures used to process other tape filings. The experience gained with these new procedures will be incorporated in the design of the operational system.

In January 1987, the central processing unit of the Pilot was upgraded from an IBM-4381—Model 2 to an IBM 4381—Model Q14. This nearly doubled processing capacity, improved internal response time, and added dual processing capabilities. Further enhancements were made at the end of fiscal year 1987 to increase disk storage, tape backup and the number of EDGAR terminals within the Commission. These enhancements will enable the Pilot to handle the larger volume of filings that is anticipated during the next fiscal year. They also provide a framework for testing procedural and system enhancements that may be incorporated in operational EDGAR.

Operational System

During fiscal year 1987, plans for Operational EDGAR continued to move forward. The EDGAR RFP was originally released on May 7, 1986. Bids were ultimately received on February 27, 1987, after two closing date extensions due to requests by potential offerors. On July 22, 1987, prior to awarding the contract, the Commission announced its intention to reopen competition for 90 days because of a change in the funding strategy for the operational contract.

Under the prior RFP, federal funding for the EDGAR contract was limited to a maximum of $46.5 million for the acceptance and review subsystem. Excess funds were to be spent on the receipt subsystem. The contractor was expected to fund the remainder of the receipt subsystem and all of the dissemination subsystem and recover costs via the regulated sale of data and services. In response to a GAO recommendation, and subsequent discussions with Congressional staff, the Commission agreed to fully fund the receipt subsystem as well as the acceptance and review subsystem. This change, coupled with an analysis of the bids received and the requirements of the Federal Acquisition Regulation, resulted in the decision to amend the RFP and reopen competition.

The Commission staff subsequently reviewed and amended the RFP to conform with the new funding strategy and the Commission's authorization legislation. Under the amended RFP, the Commission will fully fund the development and operation of the receipt and acceptance and review subsystems. The cost of developing and operating the dissemination subsystem will be borne by the contractor and recovered as before. The amended RFP is structured as a cost-reimbursement plus fixed fee contract for the first three years with the fee calculated on labor and overhead costs only. The last five years are structured as a fixed price contract as before.

The RFP, as amended, requires that offerors who intend to provide retail services in addition to regulated services pay the same Level I subscription fee as other entities who purchase the entire EDGAR data base. This fee will not be waived unless the contractor can show that such payment will place it at a significant competitive disadvantage.

The amended RFP provides for an extended phase-in period for mandatory filing, from 36 months up to 48 months, and longer if necessary. This is necessary to allow a reasonable time for system development and a six month test period for the initial group of mandatory filers.

The amended RFP was released on October 23, 1987, with proposals due in late January 1988. Further consideration of existing offers will be deferred until any additional interested parties have had an opportunity to submit their proposals.

Office of EDGAR Management

The Commission has enhanced its managerial and technical expertise in preparation for the operational system by creating a separate Office of EDGAR Management.

The Director reports to the Chairman of the Commission and has overall responsibility for the procurement, implementation and operation of the EDGAR system. In addition to overseeing the Office of Edgar Management, the Director is the contract officer for the project with responsibility for maintaining liaison within the Commission and with filers and users of the filed information. The Director will be assisted in these tasks by a professional staff including two special assistants, a legal counsel, and an industrial liaison representative. Also reporting to the Director will be three branch chiefs for contract administration, filer training and assistance, and technical systems administration. When fully staffed in late 1988, the Office of EDGAR Management will consist of approximately 40 employees.

Conclusion

The Commission is firmly committed to proceeding with EDGAR. Work on the operational system in fiscal year 1988 will include proposal evaluation, contract award, rulemaking, development of a filer training/support staff, and preparation for the transition from the Pilot to the Operational EDGAR.

Regulation of the Securities Markets

Key 1987 Results

The Division of Market Regulation, with the assistance of the regional offices, is charged with the responsibility of overseeing the operations of the nation's securities markets and market professionals. In fiscal year 1987, over 11,000 broker-dealers and ten exchanges as well as the over-the-counter markets were subject to the Commission's oversight.

Market Value of Equity Sales on U.S. Exchanges
in billions

FY '83	FY '84	FY '85	FY '86	FY '87
$1,005	$1,025	$1,147	$1,735	$2,367

B/D Oversight Examinations

FY '83	FY '84	FY '85	FY '86	FY '87
324	389	447	481	452

Surveillance and Regulatory Compliance Inspections of SROs

FY '83	FY '84	FY '85	FY '86	FY '87
18	20	21	22	23

SRO Final Disciplinary Actions

FY '83	FY '84	FY '85	FY '86	FY '87
802	1,123	971	845	991

During fiscal year 1987, the Commission designated 500 new over-the-counter securities as National Market System (NMS) securities for a total of 3,000. Unlisted trading privileges were granted to 25 National Association of Securities Dealers Automated Quotation System (NASDAQ)/NMS securities to be traded by the Midwest Stock Exchange (MSE). Mortgage-backed securities transactions, transactions that settle in same-day funds and mutual fund orders were added to the National Clearance and Settlement System. The immobilization of the securities certificate was expanded by the addition of California as the forty-seventh state to allow domiciliary insurance companies to use securities depositories. The use of book-entry systems was extended to corporate debt offerings when Ford Motor Credit Corporation issued $200 million of three-year notes in "global certificate form."

In response to increased market volatility, the staff examined the effects of index-related trading and published a study pertaining to specific market declines during

fiscal year 1987. The staff has undertaken additional studies scheduled for release in fiscal year 1988 which will further examine these issues.

Internationalization of the securities markets was furthered through the linkage of a variety of clearing agencies for both equities and options. Global securities offerings were granted certain exemptions from Rules 10b-6 and 10b-7 under the Securities Exchange Act of 1934 (Exchange Act), to permit "passive market making" and to accommodate foreign regulations and practices with respect to offering and trading of securities. The Commission sponsored a roundtable discussion on February 17, 1987, focusing on secondary market issues and primary offerings in the international area. The Division also prepared a chapter in the Staff Report on Internationalization.

Rules were proposed to regulate certain acquisitions of blocks of securities undertaken during and shortly after tender offers, referred to as "market sweeps." Rules governing short sales practices in connection with underwritings were also proposed.

The broker-dealer examination program was enhanced through the use of online systems which monitor the administration of the program by the nine regional offices. Moreover, field examinations will shortly include review of net capital and mark-up compliance by portable computers.

Securities Markets, Facilities and Trading

The National Market System

Rule 11Aa2-1 under the Exchange Act provides procedures for designating certain securities as NMS securities and Rule 11Aa3-1 requires that transactions in NMS securities be reported on a real-time basis, increasing market efficiency and improving execution of orders.

The Commission adopted amendments to Rules 11Aa2-1 and 11Aa3-1 resulting in the designation as NMS securities of all securities—whether traded on exchanges or over-the-counter (OTC)—for which transaction reports are required to be submitted pursuant to an effective transaction reporting plan. The Commission also adopted conforming amendments to related rules. Over 3,000 OTC securities now are designated as NMS securities, 500 more than in fiscal year 1986.

In April 1987, the Commission approved the Midwest Stock Exchange's application for unlisted trading privileges on 25 NASDAQ/NMS securities and approved an interim joint transaction reporting plan submitted by the MSE and the National Association of Securities Dealers (NASD) to provide for consolidated reporting of transaction and quotation data in these securities.[64] In addition, the Commission is monitoring ongoing negotiations among the NASD and several exchanges, including the MSE, on a permanent transaction reporting plan for NASDAQ/NMS securities traded on one or more exchanges on a listed or unlisted basis.

The NASD submitted a proposed rule change to the Commission that, if approved, would provide the NASD with the authority to halt trading in NASDAQ/NMS securities pending the dissemination of material news by the issuer and to halt trading in listed securities traded in the third market when the primary market for the securities halts trading pending the dissemination of material news. The Commission is currently considering the proposal.

The Commission also continued to study automation in the OTC market. The Commission issued a no-action position concerning the regulation of an automated OTC trading system (POSIT) informing the system developer that the Commission would not recommend enforcement action if such a system were not registered as an exchange.[65] The Commission is now considering new regulatory approaches for such systems.

National System for Clearance and Settlement of Securities Transactions

In fiscal year 1987, the Commission approved proposals that expanded the services of the National Clearance and Settlement System (National System) to mortgage-backed securities transactions, transactions that settle in same-day funds, and mutual fund orders. In February, the Commission granted the MBS Clearing Corporation (MBSCC) temporary registration as a clearing agency, in order to provide trade clearance and certificate depository services for mortgage-backed securities, including Government National Mortgage Association pass-through certificates.[66] In July 1987, the Commission approved, on a pilot basis through January 1988, the Depository Trust Company's (DTC) proposed same-day funds system, which expanded DTC's certificate immobilization and book-entry delivery services to certain securities settling in same-day funds, such as short-term municipal notes.[67] The Commission also approved extension of the National Securities Clearing Corporation's (NSCC) Mutual Fund Settlement, Entry and Registration Verification (Fund/SERV) Service, which provides centralized, automated handling of mutual fund orders.[68]

The Commission also approved a proposal that reduces foreign currency delivery obligations to the Options Clearing Corporation (OCC) and the Intermarket Clearing Corporation (ICC) for electing joint clearing members.[69] This is accomplished by netting foreign currency delivery obligations arising from exercises and assignments of foreign currency options at OCC with obligations to accept foreign currency at ICC arising from settling foreign currency futures contracts.

Market Volatility Studies

On September 11 and 12, 1986, the Dow Jones Industrial average fell 120 points on record volume, at that time one of the sharpest market declines in history. In response to public and Congressional concerns about the role of index-related arbitrage in the market decline, the Division of Market Regulation, in conjunction with staff of the Commodity Futures Trading Commission (CFTC), conducted a review of trading activity on those two days.

The Division observed the substantial use of index products by professional and institutional investors to shift and control risk, and to respond to market movements. The Division concluded, however, that the magnitude of the September decline was a result of changes in investors' perceptions of fundamental economic conditions, rather than artificial forces arising from index-related trading strategies. Nevertheless, index-related futures trading was instrumental in the rapid transmission of these changed investor perceptions to individual stock prices, and may have condensed the time period in which the decline occurred.

In addition, the Division has analyzed trading on "Expiration Fridays" and, with the cooperation of the New York Stock Exchange (NYSE), has implemented a plan to reduce volatility on those days.

On September 19, 1986, the NYSE, at the request of the Commission, conducted an experiment in disseminating order imbalances in an attempt to address volatility associated with the coincident expiration of index futures and options. The NYSE sent a circular to member firms instructing them to submit all market-on-close (MOC) orders in the 30 Dow Jones Industrial Average stocks by 3:30 p.m., and provided for the public dissemination of all significant MOC order imbalances.[70] This experiment worked well, and for the December 19 expiration the NYSE expanded the experiment to include 50 stocks.

Securities Immobilization

In fiscal year 1987, the Commission continued to make progress in its effort to increase the immobilization of securities certificates in securities depositories. For example, California removed restrictions on depository use by domiciliary insurance companies for their portfolio assets. Forty-seven states now allow domiciliary insurance companies to use depositories. Also during the fiscal year, issuers, transfer agents, broker-dealers and clearing agencies, through several task forces, continued their cooperative efforts to identify ways to increase the immobilization of securities certificates and to experiment with uncertificated book-entry systems. In 1986, Ford Motor Credit Corporation became the first "book-entry only" corporate debt issuer by issuing $200 million of three-year notes in "global certificate form" through the DTC. In August 1987, IBM Credit Corporation became the second issuer of global certificate corporate debt obligations, with a $200 million note offering. To date, corporate debt distributed in global certificate form totals $3.25 billion. In calendar year 1986, approximately $7.2 billion in municipal debt obligations were issued in global certificate form.

Internationalization

In its continuing efforts to foster the development of the internationalization of the securities markets, the Commission sponsored a roundtable discussion on February 17 that focused on secondary market issues and primary offerings in the international context. A summary of the internationalization roundtable was prepared by the Commission. In addition, on August 5, 1987, the Commission submitted to Congress a comprehensive staff study of the internationalization of the world's securities markets.[71] The Commission continues to monitor and review international trading and clearing linkages and proposals.

During fiscal year 1987, the Commission took several actions with respect to the application of Rules 10b-6 and 10b-7 under the Exchange Act to multinational offerings involving concurrent United States and foreign distributions. Rule 10b-6 proscribes certain conduct by persons participating in a distribution to ensure that they do not artificially condition the market for a security to facilitate its distribution. Rule 10b-7 regulates stabilization activities during distributions. The Commission's actions permitted non-United States distribution participants to continue certain customary market activities in foreign jurisdictions, subject to certain con-

ditions designed to assure that there would not be a manipulative impact on the United States market. For example, in September 1987, a letter was issued to the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (ISE) granting exemptions from Rules 10b-6 and 10b-7.[72]

The exemptions permit ISE member broker-dealers to engage in "passive market making" activities while such firms are participating in a multinational distribution of securities of certain United Kingdom issuers partially being offered in the United Kingdom, or where the United Kingdom firms are affiliated with United States broker-dealers participating in a distribution in the United States. "Passive market making" refers to the ability of the United Kingdom firms to provide depth and liquidity in the United Kingdom securities market by continuing to act as market makers, but the firms may not lead the market either in price or size of quotations. The exemptions were developed in a cooperative effort between the Commission and the ISE in response to a request from the ISE that the Commission accommodate the ISE's new market making rules prohibiting "fair weather market making" which appeared to be in conflict with Rule 10b-6.

Exemptions were also granted to permit affiliated purchasers of French and Spanish distribution participants to bid for and purchase securities in the French and Spanish markets, respectively, during multinational distributions.[73] In France, a bank sponsoring the underwriting (or the issuer) generally will assist French market makers in the maintenance of an orderly market for a period of time following the distribution. In Spain, it is customary for affiliates of the issuer to act as market makers, even during distributions, to ensure liquidity and modulate price swings. Without the granted exemptions, such activities would have been prohibited by Rule 10b-6.

Finally, in May 1987, the Commission issued two exemption orders under Rule 10b-7 with respect to stabilization of global securities offerings. The exemption orders treated certain foreign markets as the "principal market" for purposes of determining appropriate stabilizing price levels.[74]

As part of its secondary market internationalization program, the Commission continued to foster the development of international linkages between clearing agencies. For example, the Commission issued no-action letters to the International Securities Clearing Corporation (ISCC) and NSCC to permit a pilot link with the ISE.[75] The Commission also granted a no-action request from Midwest Clearing Corporation (MCC), Midwest Securities Trust Company (MSTC) and the Societe Interprofessionelle pour la Compensation des Valeurs Mobilieres (SICOVAM) permitting MCC/MSTC to maintain custody of securities for SICOVAM and, on a fully disclosed basis, SICOVAM participants.[76]

The Commission has also fostered foreign participation in the National Clearance and Settlement System. The Commission approved OCC rule changes that exempt Canadian clearing members from OCC's accounting and capital requirements keyed to United States standards and requirements and permit Canadian clearing members to maintain OCC membership under Canadian net capital requirements and Canadian accounting standards.[77] The Commission also approved an OCC proposal to issue and clear options on the Major Market Index (XMI) fungible with those currently traded on the American Stock Exchange (Amex)[78] for trading on the European Options Exchange.

Options

During fiscal year 1987, the Commission issued a Rule 9b-1 order under the Exchange Act that approved proposed revisions to the Options Disclosure Document (ODD).[79] The revised ODD, submitted by the OCC in conjunction with the Amex, Chicago Board Options Exchange (CBOE), Pacific Stock Exchange (PSE), NYSE, Philadelphia Stock Exchange (Phlx) and NASD, reflects recent changes in the options market such as the introduction of evening trading hours in foreign currency options and the growing international trading of options. In this regard, the Commission approved rule changes by the Amex and OCC which enabled the European Options Exchange to trade options on the XMI, a broad-based, price-weighted index constructed by the Amex.[80] This is the first occasion in which options that are identical to and fungible with option contracts traded on a domestic securities exchange have traded on a foreign securities exchange.

The Commission also approved a rule change that would allow the Phlx to list options on a narrow-based utility index comprised of the common stocks of 20 domestic companies that are involved primarily in electric power generation.[81] In addition, the Commission issued an order that approved a PSE proposal to list and trade options on the Financial News Composite Index (FNCI), a broad-based price-weighted index comprised of 30 NYSE listed stocks designed to track the overall market.[82] Additionally, the PSE arranged with the International Futures Exchange (Bermuda), Ltd. (Intex), a foreign commodity exchange, for Intex to trade futures on the FNCI. Also, the PSE ceased trading options on the PSE Technology Index as of the September 1987 expiration.[83]

The Commission approved proposed rule changes submitted by the Amex, Phlx, and NYSE to list foreign currency warrants for trading.[84] These warrants, issued by highly capitalized corporations or their affiliated finance companies, are cash settled, exercisable before their expiration date, and have a value linked to the value of a foreign currency.

Pursuant to Section 2(a)(1)(B) of the Commodity Exchange Act, the Commission sent a letter to the CFTC not objecting to the designation of the Chicago Board of Trade (CBT) as a contract market for the trading of stock index futures on the Institutional Index (XII).[85] The XII, developed by the Amex, is an index comprised of 75 stocks that are held by institutional investors. The Commission also sent a letter to the CFTC not objecting to the designation of the CBT as a contract market for the trading of futures contracts on the Long-Term Corporate Bond Index.[86] The Long Term Corporate Bond Index, developed by the CBT, is composed of 100 fixed-rate, non-convertible, publicly-offered, highly-rated, long-term, United States dollar-denominated bonds issued by United States corporations with a principal value of $100 million.

In addition, the Commission sent a letter to the CFTC not objecting to the designation of the Commodity Exchange, Inc. as a contract market for the trading of futures contracts on the Moody's Investment-Grade Corporate Bond Index.[87] The index, developed by Moody's Investors Service, is composed of 80 fixed-yield, non-convertible, highly-rated, intermediate and long-term bonds issued by United States corporations with a principal value of at least $100 million. In response to a CFTC request, the Commission also sent a letter to the CFTC not objecting to a

CFTC no-action position authorizing the Singapore International Monetary Exchange, Ltd. (SIMEX) to offer and sell stock index futures contracts based on the Nikkei Stock Average (Nikkei) to United States citizens.[88] The Nikkei is a price-weighted stock index which is calculated based on the prices of 225 highly-capitalized stocks on the Tokyo Stock Exchange.

Further, the Commission amended Rule 3a12-8 under the Exchange Act to eliminate the requirement that futures on foreign government securities be traded on a board of trade in the country that issued those securities.[89]

As previously noted in the market volatility section, the Commission continued to examine the effects of index-related trading strategies involving index options and futures and the underlying component stocks both on the last trading day before expiration (so-called "Expiration Friday") and on non-expiration days in fiscal year 1987. In addition to the rule filing involving the submission of market-on-close orders relating to index arbitrage in 50 designated stocks,[90] the Commission approved a NYSE rule change to modify the settlement price of expiring stock index options on the NYSE Composite Index and NYSE Beta Index to the opening prices of component stocks, rather than the closing prices, on Expiration Friday.[91] The Commission also approved a NYSE rule change implementing special stock opening procedures designed to reduce order imbalances due to the settlement of certain index options and futures at the opening rather than the closing of trading.[92] As previously discussed, the Commission also published a staff study looking at non-expiration volatility and, in particular, the role of index-related trading strategies in the market decline of September 11 and 12, 1986.

In fiscal year 1987, the Commission revisited the question of eliminating the existing options allocation plan and permitting trading of exchange-listed options on more than one exchange. In particular, the Commission authorized a proceeding under Section 19(c) of the Exchange Act to consider whether to: (1) adopt a policy permitting multiple trading on exchange-listed stocks; and (2) amend the rules of the options exchanges to remove restrictions on the multiple trading of options on exchange-listed stocks.[93]

Regulation of Brokers, Dealers, Municipal Securities Dealers, and Transfer Agents

Broker-Dealer and Transfer Agent Examinations

During fiscal year 1987, the Commission continued to make increased use of computers in the broker-dealer regulatory programs. A new on-line system now captures all broker-dealer examination data. This data is used to monitor the activities of the Commission's nine regional offices in carrying out the examination program goals and objectives. Additionally, software programs for the review of net capital and mark-up compliance were developed for use in field examinations, when portable computers become available. By the end of the fiscal year, the Commission had ordered a number of portable computers, which will become available to field examiners for conducting broker-dealer and transfer agent examinations in fiscal year 1988. Previously, a pilot test program determined that portable computers would improve examiner productivity.

The broker-dealer oversight program continued to emphasize review of sales

practice activities at large national firms. These examinations included on-site reviews at both the headquarters and branch offices of the selected firms. Also, the Commission placed greater emphasis on compliance with the currency reporting provisions of the Bank Secrecy Act. As a result, the Commission brought enforcement proceedings against several broker-dealers for failure to report cash transactions and referred matters to the Department of Treasury for possible civil or criminal action.

The Commission completed 452 oversight examinations of SRO members, a 6.0 percent decrease from the 481 examinations completed in fiscal year 1986. This decrease was the result of an increased emphasis on comprehensive oversight examinations with an increased emphasis on sales practice reviews. As a result, despite the decrease in the number of completed oversight examinations, the Commission increased the amount of time spent on the oversight examination program by 3.3 percent. The Commission also completed 56 cause examinations, a decrease from the 69 conducted in fiscal year 1986. The decrease in cause examinations has resulted from the Commission's determination to place greater reliance on the SROs to handle matters for which they have adequate remedies.

In addition, the Commission also reviewed several broker-dealers to examine their procedures for limiting access to market-sensitive information within multi-service firms. This "Chinese wall" inspection revealed that each firm used a different approach to control the flow of inside information through the Chinese wall. The Commission concluded that the firms would benefit by setting clearer minimum standards in several areas. Consequently, the NYSE agreed to include supervision of its members' Chinese walls in its regular examination program and the Commission plans to aid in the development of an examination module and provide oversight of NYSE examinations.

The Commission also conducted 111 transfer agent examinations, an increase of 2.8 percent from the 108 examinations conducted in fiscal year 1986. These examinations were conducted following guidelines set by the Commission which are designed to improve examination selection and to follow-up on deficiencies noted in prior examinations.

Market Sweeps

In September 1987, the Commission approved issuance of a release soliciting comments on proposed Rules 13e-2 and 14d-1 under the Exchange Act which would govern certain acquisitions of securities undertaken during and shortly after a conventional tender offer for securities of the same class and related activities.[94] If adopted, the proposed rules would apply to purchases, offers to purchase, arrangements or understandings to purchase and solicitations of offers to sell securities that are the subject of the tender offer. If any such transaction is undertaken during and shortly after a tender offer and would increase any person's beneficial ownership of the class of securities subject to the tender offer by 10 percent or more of the class, the transaction must be made in compliance with the statutory provisions and rules applicable to tender offers. Exceptions would be provided for: (1) purchases of blocks which had been reported to the Commission for one year; (2) purchases from the issuer; (3) purchases pursuant to a pre-existing written

agreement; (4) issuer transactions approved by security holder vote, including recapitalizations and reorganizations; and (5) purchases in connection with mergers approved by the issuer's security holders. The provisions would apply to all persons from the formal commencement of a tender offer until 10 business days after the scheduled expiration date.

Short Sales

On May 20, 1987, the Commission issued a release soliciting comments on proposed Rule 10b-21 under the Exchange Act.[95] If adopted, the rule would prohibit a person who effects short sales of an equity security during the period between the filing of a registration statement relating to the same class of equity securities and the commencement of the public offering of such equity securities from directly or indirectly covering such short sales with securities purchased from an underwriter or broker or dealer participating in the public offering. The proposed rule is designed to prevent manipulative short selling by market participants in anticipation of underwritten public offerings.

Bank Securities Activities

On May 4, 1987, the Commission submitted to Congress proposed legislation entitled the Bank Broker-Dealer Act of 1987. The Bank Broker-Dealer Act, introduced in both the House of Representatives[96] and the Senate,[97] would modify the blanket exceptions for "banks" found in the definitions of "broker" and "dealer," and would remove the exemption for banks that engage in any of the activities enumerated in Rule 3b-9 under the Exchange Act. The Bank Broker-Dealer Act would expressly require banks that fall within the definitions of "broker" or "dealer" to establish separate entities registered as broker-dealers with the Commission, through which securities activities would be carried out.

The proposed legislation is intended to codify the concepts first presented in Rule 3b-9, which the Commission adopted on July 1, 1985.[98] The rule would have required banks to conduct certain securities activities through broker-dealers registered under the Exchange Act. These activities are: (1) public solicitation of brokerage for transaction-related compensation, (2) receipt of transaction-related compensation for providing brokerage services for trust, managing agency, or other accounts to which the bank provides advice, or (3) dealing in or underwriting securities. The rule also contains several exceptions for banks that conduct only limited securities activities. On November 4, 1986, the rule was invalidated by the Court of Appeals of the District of Columbia Circuit.[99] In its opinion, the Court suggested that perhaps Congress should address the issue of bank broker-dealer activities.

Zero-Coupon Securities

In April 1987, the Commission issued a release reminding broker-dealers that the Commission's and self-regulatory organizations' (SRO) mark-up policies apply to transactions in zero-coupon securities.[100] The Commission issued the release because it had become concerned about mark-up and mark-down practices that may have developed with respect to such securities.

Financial Responsibility Rules

On June 11, 1987, the Commission amended its net capital, recordkeeping and quarterly securities count rules in connection with the treatment of repurchase and reverse repurchase agreements entered into by registered broker-dealers.[101] The record-keeping rule was amended to specifically require broker-dealers to maintain certain books and records with respect to their repurchase and reverse repurchase transactions, including securities records and copies of all confirmations. The quarterly securities count rule was amended to clarify that broker-dealers are required to account for securities that are the subjects of repurchase agreements as they do for other securities for which they are responsible. The net capital rule was amended to establish deductions from net worth in arriving at net capital for repurchase and reverse repurchase agreements under certain risk circumstances, to require additional capital when the broker-dealer has attained a high degree of leverage as a result of those agreements and to require deductions in connection with transactions with affiliates when the affiliate's records are not made available for examination.

Customer Protection Rule

On August 6, 1987, the Commission amended its customer protection rule, effective January 31, 1988, in connection with repurchase agreements where the broker-dealer agrees to retain custody of the securities that are subject to those agreements.[102] The amendments to the rule will require registered broker-dealers to obtain repurchase agreements in writing, to make specific disclosures regarding certain risks associated with hold-in-custody repurchase transactions and to disclose that the Securities Investor Protection Corporation (SIPC) has taken the position that coverage under the Securities Investor Protection Act of 1970 is not available to repurchase agreement participants. The amendments further require registered broker-dealers to maintain possession or control of securities subject to hold-in-custody repurchase agreements, except that possession or control during the trading day is not required if certain conditions are met.

Interpretations of the Customer Protection Rule

On September 8, 1987, the Division issued a no-action letter to the New York Stock Exchange Sponsored Joint Industry Rule 15c3-3 Committee regarding possession or control of customers' securities for purposes of the customer protection rule.[103] The letter permits broker-dealers to rely on the expected receipt of securities borrowed in order to process "today for tomorrow" delivery instructions for fail to deliver requirements under certain conditions, until a permanent DTC system designed to assist the broker-dealer community in segregating fully paid or excess margin securities is operational.

Lost and Stolen Securities

In 1977, the Commission instituted the Lost and Stolen Securities Program. The Commission's designee, the Securities Information Center (SIC), maintains an up-to-date database on lost, stolen and counterfeit securities. Program data for calendar year 1986 indicate the continuing utility of the program to broker-dealers,

banks, and investors. Program participants number just over 20,300, a three percent increase over 1985. In 1986, the dollar value of certificates that were reported to SIC as lost, missing, stolen or counterfeit was $2.3 billion, a 15 percent increase over 1985. As a result, the aggregate dollar value of the database increased from $9.8 billion to $12.1 billion. The number of certificates reported as lost, stolen, missing or counterfeit increased approximately 18 percent, from 506,223 in 1985 to 596,707 in 1986. Registered institutions also made inquiries concerning 2.5 million certificates. The number of 1986 inquiries from participants that matched previous reports of lost, missing, stolen or counterfeit securities (hits) was 596, a decrease from 1,036 in 1985. The dollar value for hits, however, increased slightly, from $15.4 million in 1985 to $15.5 million in 1986.

Municipal Bond Redemption Processing

To improve the processing of whole-issue and partial calls of municipal securities, the Commission endorsed voluntary notification and processing guidelines that were developed in consultation with federal regulators, self-regulatory organizations, and organizations representing municipal securities issuers, bond counsel and securities processors.[104]

During fiscal year 1986, the number of called bonds increased fourfold, due to declining interest rates. The voluntary guidelines are designed, among other things, to assure that bond holders receive timely and accurate notice to redeem their bonds.

Oversight of Self-Regulatory Organizations

National Securities Exchanges

As of September 30, 1987, nine active exchanges were registered with the Commission as national securities exchanges.[105] During the fiscal year, the Commission granted applications by exchanges to delist 88 equity and debt and 16 option issues and granted applications by issuers requesting withdrawal from listing and registration for 29 issues. In addition, during the fiscal year the Commission granted 1,188 applications by exchanges for unlisted trading privileges.

During fiscal year 1987, the Commission instituted proceedings pursuant to Section 19(c) of the Exchange Act to consider the adoption of a new rule for certain exchanges and associations. The rule would place a prohibition on an exchange listing, or an association (i.e., the NASD) authorizing for quotation the common stock or equity securities of an issuer if, on or after May 15, 1987, the issuer issues securities or takes other corporate action that would have the effect of nullifying, restricting or disparately reducing the voting rights of any common stock of such issuers.[106] As part of this proceeding, the Commission held a public hearing in July for interested persons to present their views. The Commission decided to institute Section 19(c) proceedings after the NYSE submitted a proposal to amend its "one share, one vote" rule to permit listed companies to issue stock with disparate voting rights if certain requirements were satisfied.[107] Public hearings on the rule change were held on December 16 and 17, 1986.

The Commission set aside actions by the NYSE denying two members, William J. Higgins and Michael D. Robbins, permission to communicate by telephone from

the Exchange floor with non-member customers located off the floor.[108] In its Opinion, the Commission rejected arguments by the NYSE that it had a longstanding rule prohibiting such communication links. The Commission held that the NYSE had no rule, or policy enforceable as a rule, denying members the right to have direct telephone communication from the floor with their non-member customers located off-floor and ordered the NYSE to permit Higgins and Robbins to install the telephone connections they had requested.

During fiscal year 1987, the Commission received 205 proposed rule changes from the stock exchanges. The Commission approved several significant rule filings, including proposals of the NYSE and Amex to permit them to waive or modify certain of their corporate governance and financial disclosure listing standards for foreign issuers that conflict with the home country's laws or practices.[109] Under the Amex and NYSE rules, such a waiver may be granted only where the practices of the foreign companies are in compliance with business practices and legal requirements of their country of domicile.

The Commission also approved proposed rule changes of the Amex and NYSE that eliminate certain restrictions imposed on approved persons[110] which own or control specialist units on the floor of the exchanges if the approved persons establish an organizational separation, or "Chinese wall," between its entity and the specialist unit.[111] It also approved a proposed rule change by the Amex to require specialists to accept stop orders in common stock and accept stop limit orders where the stop and prices are not identical.[112]

The Commission approved proposals by the NYSE to: (1) amend its rule pertaining to the execution of percentage orders to broaden the ability of NYSE specialists to represent percentage orders in the trading process by allowing the specialist to convert such orders into limit orders on destabilizing ticks;[113] and (2) establish, on a pilot basis, a policy for reviewing certain proposed mergers and combinations between specialist units that could, in the NYSE's view, potentially result in concentration levels harmful to the NYSE, the quality of its markets, and its specialist community.[114]

Finally, the Commission approved a proposal by the Cincinnati Stock Exchange (CSE) regarding an affiliation with the CBOE.[115] The affiliation provides CBOE members access to trading on the CSE by allowing CBOE members to become CSE members without having to purchase CSE certificates of proprietary membership. The affiliation, in part, is a result of the CBOE's desire to have access to a stock market in the event the side-by-side trading of options and stocks is commenced.

National Association of Securities Dealers, Inc.

The NASD, the only national securities association registered with the Commission, has over 6,600 member firms. In fiscal year 1987, the NASD reported the disposition of 415 formal and summary disciplinary actions and 194 formal and summary actions by its NASDAQ and Market Surveillance Committees.

In addition, the Commission received 46 filings of proposed rule changes from the NASD. The Commission approved 29 proposed rule changes in fiscal year 1987. The Commission approved NASD proposals: (1) extending for a two-year period the pilot program for the exchange of quotation information between the

NASD and the ISE;[116] (2) establishing a NASDAQ Workstation pilot that would update terminals used in the NASDAQ marketplace by providing a state-of-the-art workstation for NASDAQ market makers;[117] (3) amending Schedule D to the NASD's By-Laws which governs the operation of the NASDAQ system;[118] and (4) amending the NASD's Rules of Fair Practice to regulate members' communications with the public with regard to direct participation program advertising.[119]

The Commission also approved amendments to the NASD's Transaction Reporting Plan with respect to NASDAQ/NMS Securities. The purpose of the amendments was to specify eligibility requirements, including certain corporate governance standards, that determine the NASDAQ securities that can be included in the NMS and thus have real-time last sale reporting. The eligibility criteria were added to Schedule D of the NASD's By-Laws.[120]

Municipal Securities Rulemaking Board (MSRB)

In fiscal year 1987, the Commission received 14 proposed rule changes from the Municipal Securities Rulemaking Board and approved 11 MSRB rule filings. Of particular note was the approval of an amendment of Rule G-8(a)(xi) to require municipal securities dealers to record and maintain suitability information obtained pursuant to Rule G-19(b).

Clearing Agencies

During fiscal year 1987, the Commission received 98 proposed rule changes from registered clearing agencies and approved 93. The Commission approved self-regulatory organization rule changes designed to improve the transfer of customer accounts among member firms[121] and clearing agency rule changes establishing automated systems for transferring customer funds and securities among member firms.[122] The Commission also approved an NSCC proposal that established a Reorganization Processing System, which would allow, for the first time, centralized automated netting and settlement of transactions in securities subject to a reorganization (*e.g.*, a tender offer).[123] The Commission also approved changes to OCC's by-laws to clarify OCC's authority, and standards for the exercise of that authority, to adjust the terms of outstanding options contracts, among other things, for changes in securities underlying those contracts.[124]

SRO Surveillance and Regulatory Compliance Inspections

During the fiscal year 1987, the Commission conducted 23 inspections of SRO market surveillance, compliance, disciplinary and operational programs.

In fiscal year 1987, the staff completed a review of the NYSE program of formal discipline for floor trading violations. Since the previous inspection, the NYSE has made significant advances in its overall disciplinary program, resulting in the prosecution of more actions than in any other prior period. The inspection report noted a need for further progress in the areas of timeliness of disciplinary actions, the determination of sanctions, case management, and document control procedures.

An inspection was conducted of systems to detect and deter insider trading at three SROs and several broker-dealers. The staff reviewed surveillance procedures

for detection of insider trading at the NYSE, the Amex, and the CBOE. These systems were found to be operating effectively and additional enhancements were being implemented to further improve surveillance capabilities. The staff also noted that investigations resulting from surveillance procedures were generally thorough and well-documented. Nevertheless, the Division suggested that the SROs shorten the length of investigations. In an effort to improve the timeliness and quality of insider trading referrals to the Commission, the Intermarket Surveillance Group formed an insider trading subgroup. This subgroup, consisting of representatives from SROs and the Divisions of Market Regulation and Enforcement, formulated an insider trading initiative with the goal of reducing referral time on SRO investigations, along with proposals for enhancing communication and coordination between the SROs and the Commission. The initiative was endorsed and the Intermarket Surveillance Group was commended by the Commission for its efforts and response to the concerns in the marketplace regarding insider trading.

The inspection staff also visited several broker-dealers to examine their procedures for limiting access to market-sensitive information within multi-service firms. This "Chinese wall" inspection revealed that each firm used a different approach to control the flow of inside information through the Chinese wall, but that improvements could be made in documenting actions taken by the firm and in increasing the auditability of the process. Consequently, the NYSE agreed to include supervision of its members' Chinese walls in its regular examination program. The Commission plans to aid in development of an examination module and provide oversight of NYSE examinations.

An inspection of the new NASD free-riding and withholding program revealed significant improvement in surveillance of manipulation in newly issued securities. In January 1986, the NASD implemented new procedures for manipulation review into its oversight of new issues. Automated surveillance systems were combined with manual procedures and improved questionnaires to greatly enhance the prior review procedure. Minor recommendations were made regarding follow-up on questionnaires at the district level. Nevertheless, the NASD was commended for vastly improved procedures.

The Commission also conducted an inspection of NASD's surveillance of non-NASDAQ over-the-counter securities (commonly known as "pink sheet" stocks). In response to this inspection, the NASD has enhanced its "pink sheet" surveillance program by agreeing to review all non-NASDAQ issues rather than just those cleared by the NSCC. In addition, the NASD plans to implement a rule requiring member firms to submit information to the NASD that will aid in the surveillance procedure.

The May 1987 inspection of the PSE revealed significant improvements in surveillance procedures and implementation of an options audit trail. Additional recommendations for improvement of PSE surveillance systems were made in some areas. The PSE was advised to further automate options surveillance procedures by automating trading analyses of the underlying equities. In addition, the Commission suggested increased staffing and further automation of surveillance procedures.

The Commission also completed comprehensive inspections of the surveil-

lance, investigatory, and disciplinary programs for options and equities at the Phlx. In both options and equities, the inspection found that the Phlx had improved its surveillance procedures. The inspections also found improvement in timeliness and quality of investigations. The Commission had minor recommendations for strengthening Phlx penalties and for the specialist performance evaluation program.

During fiscal year 1987, the Commission completed an inspection of the surveillance, investigatory and disciplinary programs of the MSE. A review of the Listing Department was conducted as well. The MSE surveillance procedures and staffing levels were found to be satisfactory and minor recommendations were made regarding improvement in documentation of investigations and disciplinary actions. In addition, enhancements to surveillance procedures and Listing Department operations were advised.

An inspection of the CSE revealed adequate surveillance and compliance programs. However, due to increasing trading volume, improvements were recommended in the areas of documentation of daily surveillance and investigatory activity and informal disciplinary actions for minor CSE rule violations.

A comprehensive inspection of CBOE's surveillance and disciplinary program for trading violations was conducted in fiscal year 1987. The Commission found that the CBOE's three-year surveillance automation project was proceeding on schedule and promised to permit the surveillance program to keep pace with the CBOE's increasing options trading volume. The Commission made recommendations for enhancements to existing surveillance procedures and advised the CBOE to increase the severity of sanctions in appropriate cases of recidivist violations.

The Commission conducted a comprehensive inspection of the Amex. Specifically, the inspection focused on four major program areas: (1) routine options sales practices examinations of those firms for which the Amex is the designated options examining authority; (2) investigations of customer complaints, terminations of registered representatives for cause and firms' notices of disciplinary actions; (3) processing of formal disciplinary actions resulting from examinations and investigations; and (4) examinations and financial surveillance of those firms conducting a public business for which the Amex is the designated examining authority under Rule 17d-1 of the Exchange Act. Overall, the inspection disclosed that the Amex regulatory programs are functioning satisfactorily. The Commission did note delays in processing disciplinary actions as well as isolated deficiencies in the Amex's examinations and investigations of members' options sales practices.

The Commission conducted an inspection of the NYSE's handling of referrals (typically, customer complaints) from the Commission. The inspection disclosed that the initial processing of the referrals by the Customer Complaint Department was being handled satisfactorily. However, the inspection found deficiencies in investigations conducted by the Department of Enforcement. The NYSE represented that significant increases in staff would be made and that procedural and organizational changes were being made to improve the timeliness and quality of investigation of all cause matters, including those cases referred by the Commission.

The Commission also conducted an inspection of the MSE's broker-dealer ex-

amination, financial surveillance and formal disciplinary action programs, as well as the handling of customer complaints and Regulation T extension requests. The Commission concluded that the MSE is ensuring members' compliance with the federal securities laws in a satisfactory manner and is conducting effective regulatory programs with respect to MSE member firms. Minor deficiencies in the Regulation T and financial surveillance program were noted.

The Commission also conducted inspections of eight of the fourteen NASD district offices. Inspections of the district offices in California, Denver, Dallas, Atlanta, Chicago, Cleveland, Philadelphia and New York were conducted by the Commission's regional offices. As in prior years, the Commission noted isolated deficiencies in the districts' financial surveillance routine examination, cause investigation and formal disciplinary action programs. Nevertheless, the NASD district office inspections generally revealed that the NASD was satisfactorily meeting its oversight responsibilities under the Exchange Act. In particular, the Commission noted significant improvements in the district office in New York as a result of management and procedural changes. In addition, the Commission met with the NYSE and the NASD on a quarterly basis to discuss current regulatory, examination and oversight issues.

The staff completed a comprehensive review of securities industry sponsored arbitration that reflected the Commission's belief in the need for thorough oversight of SRO arbitration systems. The review found that while securities industry arbitration generally operates fairly, the process can be improved in a number of respects. Major recommendations regarding the operation of SRO arbitration systems have been sent to members of the Securities Industry Conference on Arbitration, the group that drafted the rules under which SRO arbitration operates.[125] The Commission's principal recommendations were that: (1) SROs establish standards for who may serve as a public arbitrator, (2) make publicly available summary data on the results of arbitrations, (3) adopt improved discovery procedures, (4) review arbitrator disclosure provisions, (5) implement effective arbitrator training programs, (6) institute arbitrator evaluation programs, and (7) explore flexible rules for large cases. The SROs have been asked to respond to the recommendations in fiscal year 1988.

Applications for Re-entry

During fiscal year 1987, the Commission received 103 SRO applications to permit persons subject to statutory disqualifications, as defined in Section 3(a)(39) of the Exchange Act, to become or remain associated with broker-dealers. The distribution of filings among the SROs was the following: NASD (89); NYSE (12); and Amex (2). Of the total filings processed, 8 applications were subsequently withdrawn, 99 were completed, and 4 were pending at year-end.[126] The Commission refused to take a no-action position in two applications.

As part of the review of SRO arbitration, the Commission examined the operation of the NASD's arbitration program. In addition to the recommendations set out above, the Commission recommended that the NASD improve the turnaround times of its cases. Discussions with the NASD on appropriate changes to its program should conclude in fiscal year 1988.

SRO Final Disciplinary Actions

Section 19(d)(1) of the Securities Exchange Act of 1934 and Rule 19d-1 thereunder require all self-regulatory organizations to file notice with the Commission of all final disciplinary actions.

A Rule 19d-1 filing reports a completed action that may have been initiated at any time during the previous years. The duration of a SRO action frequently reflects the severity of the violations(s) charged, the number of respondents involved, and the complexity of the underlying facts. SROs generally conclude cases involving minor or techincal violations with a single respondent in less than a year; cases involving serious trading violations (e.g., price manipulation, prearranged trading, front-running, etc.) require more time to complete because of the necessity to demonstrate specific intent to the disciplinary panel that acts as a trier of fact. Consequently, the volume of Rule 19d-1 notices submitted by a SRO in a given year is not a precise measure of its proficiency in market surveillance and compliance. Nevertheless, the number of actions reported can be useful in assessing the regulatory effectiveness of different SROs over similar time periods, and this information has proved useful in focusing inspections of SRO regulatory programs.

In fiscal 1987 the American Stock Exchange filed 44 Rule 19d-1 reports, the Chicago Board Options Exchange filed 145; the New York Stock Exchange filed 128; the Philadelphia Stock Exchange filed 11; the Pacific Stock Exchange filed 50; the Boston Stock Exchange filed none; the Midwest Stock Exchange filed 4; and the National Association of Securities Dealers filed 609.

SRO Final Disciplinary Actions

	1983	1984	1985	1986	1987
Exchanges	475	394	530	419	382
NASD:					
District Committees	227	667	348	252	415
NASDAQ and Market Surveillance Committees	100	62	93	174	194
TOTALS	802	1123	971	845	991

Investment Companies and Advisers

Key 1987 Results

The Division of Investment Management oversees the regulation of investment companies and investment advisers under two companion statutes, the Investment Company Act of 1940 (Investment Company Act) and the Investment Advisers Act of 1940 (Investment Advisers Act), and administers the Public Utility Holding Company Act of 1935 (Holding Company Act).

Number of Active Registered Investment Companies and Investment Advisers

	FY'83	FY'84	FY'85	FY'86	FY'87
Investment Companies	2,057	2,210	2,458	2,912	3,305
Investment Advisers	7,043	9,083	10,908	11,707	12,690

Investment Company and Adviser Assets Under Management
(in billions)

	FY'83	FY'84	FY'85	FY'86	FY'87
Investment Companies	$360	$370	$ 525	$ 742	$1,200
Investment Advisers	$780	$850	$1,170	$1,400	$3,500

Inspections/Examinations of Investment Companies and Advisers

	FY'83	FY'84	FY'85	FY'86	FY'87
Investment Companies	348	497	567	643	739
Investment Advisers	737	837	1,039	1,263	1,294
Total Examinations	1,085	1,334	1,606	1,906	2,033

During fiscal year 1987, the number of registered investment companies increased by 13 percent and the assets they manage increased by 62 percent. The number of investment advisers registered increased by 8 percent and the assets they manage increased by 199 percent.

The number of investment company and investment adviser examinations completed during fiscal year 1987 exceeded 2,000 for the first time, almost double the number completed in fiscal year 1982.

During fiscal year 1987, the Division and the regional offices continued efforts to coordinate their regulatory activities with state authorities that share the Commission's jurisdiction over investment advisers, by conducting joint examinations, providing training for state examiners, and routinely sharing examination results.

The Commission staff is preparing a report on the financial planner industry, requested in July 1986 by Congressmen Timothy E. Wirth and Matthew J. Rinaldo of the House Committee on Energy and Commerce's Subcommittee on Telecommunications, Consumer Protection and Finance. The report will focus on the financial planning industry's customer demographics, planner characteristics, compensation, registration, inspection, and the National Association of Securities Dealers' (NASD) pilot project to inspect investment advisers who are also NASD members.

In June 1987, the Board of Governors of the National Association of Securities Dealers passed a resolution to take steps to become a self-regulatory organization with jurisdiction over the investment advising activities of its members and affiliates who are investment advisers. The Commission will consider the NASD proposal in greater detail after the related report on the financial planning industry is completed.

The Division's Office of the Chief Counsel coordinated the Division's work on a number of Commission-wide special projects and legislative initatives, including the Commission's internationalization and bank guarantee studies.

Disclosure Requirements

During fiscal year 1987, the Commission reproposed for comment Form N-7, a simplified form under the Securities Act of 1933 (Securities Act) and the Investment Company Act for all unit investment trusts other than insurance company separate accounts.[127] The Commission proposed for comment Rule 24f-3 under the Investment Company Act, which would provide a simplified method for unit investment trusts to pay securities registration fees imposed under the Securities Act.[128] In addition, the Commission adopted an amendment to Regulation S-X to require that registered investment companies account for net costs incurred under a Rule 12b-1 plan as an expense.[129] The amendment provides for uniform accounting treatment so that investors may more accurately compare investment results and expense ratios among investment companies. An amendment to Form N-SAR, the semi-annual report filed by investment companies, was proposed that would conform the form's change-of-accountant disclosure requirements to those of Form 8-K under the Exchange Act.[130]

The Commission also proposed amendments to Form N-1A, the registration form for mutual funds to provide for a consolidated table of expenses (fee table) near the front of the prospectus.[131] The fee table is intended to assist investors in comparing expenses among mutual funds.

EDGAR

In July 1985, the Office of Public Utility Regulation began accepting electronic filings from registered public utility holding company systems and their member companies. An EDGAR Pilot Branch was formed in October 1985, which began processing electronic filings for a volunteer group of investment company registrants in November 1985. The volunteers include a representative group of 184 management investment companies and 77 unit investment trusts with over 2,700 active series. Electronic filings on Form N-SAR, the semi-annual report of registered investment companies, also were made by 700 registered management investment companies not participating full-time in the EDGAR Pilot. As of September 30, 1987, the Commission received 16,368 investment company filings through the EDGAR Pilot Branch.

In March 1987, the Commission adopted a temporary rule and form to allow optional electronic filing of Form 13F, the report of securities holdings filed by institutional managers. The rule specifies a uniform format and requires that electronic filings of this form be made on magnetic tape. These electronic filings, which

should facilitate tabulation of 13F data, are expected to begin in November 1987, for the quarter ended September 30, 1987.

Regulatory Policy

In November 1986, the Commission adopted an amendment to Rule 31a-2 under the Investment Company Act to permit investment companies to maintain required records on magnetic tape, disk, or other computer storage media, in recognition of the greater use of computers in the industry.[132]

In December 1986, the Commission proposed Rule 11a-3 under the Investment Company Act, which would permit, under specified conditions, a mutual fund or its principal underwriter to make an exchange offer to the fund's own shareholders or to shareholders of another fund in the same family of funds. At the same time, the Commission proposed Rule 11c-1 under the Investment Company Act which would conditionally permit a unit investment trust or its sponsor to make exchange offers to certain unit holders.

In June 1987, the Commission proposed amendments to Rule 19b-1 under the Investment Company Act, which restricts registered investment companies to making one distribution of long-term capital gains for any one tax year, plus a supplemental distribution not exceeding ten percent of the prior distribution. The amendments, which were adopted in final form in October 1987, permit investment companies to make one additional distribution of longterm capital gains for any one tax year where the distribution is made to avoid the assessment of an excise tax on the investment company under the Internal Revenue Code, as amended by the Tax Reform Act of 1986.

In October 1987, the Commission adopted Rule 6c-9, which provides an exemption from the Investment Company Act for foreign banks selling their own debt securities or non-voting preferred stock in the United States. The rule also applies to the sale of those securities by a foreign bank's finance subsidiary.

Investment Advisers

The Commission adopted Rule 206(4)-4 under the Investment Advisers Act, which codifies an investment adviser's fiduciary obligation to give material financial and disciplinary information to clients.[133]

The Commission also issued Investment Advisers Act Release No. 1092, which sets forth uniform interpretations of federal and state investment adviser laws as they apply to financial planners and other persons. Developed jointly by the Commission's staff and the North American Securities Administrators Association, Inc., the release revised Investment Advisers Act Release No. 770 issued in August 1981. Among other things, it clarifies the definition of investment adviser as applied to financial planners and discusses the staff's view that an adviser's duty to disclose material facts includes the duty to disclose the various capacities in which the adviser might act when dealing with a particular client.

Insurance Products

One exemptive rule under the Investment Company Act has been proposed, and another adopted on a temporary basis, to facilitate the process under the se-

curities laws of bringing new variable insurance products to the marketplace. In March 1987, a new approach to exemptive relief for the deduction of mortality and expense risk charges from the assets of life insurance company separate accounts was introduced in the reproposal of Rule 26a-3. In May 1987, a new round of amendments to Rule 6e-3(T) became effective, essentially codifying relief granted in individual exemptive orders over the last several years, and updating the rule to reflect the latest features of flexible premium product designs.

In June 1987, the Commission issued a notice of the filing of an application by the College Retirement Equities Fund (CREF) and The Teachers Insurance and Annuity Association of America for an order granting exemptions from certain sections of the Investment Company Act and approving certain transactions in order to allow CREF to continue to operate as it had before agreeing to register as an investment company. A number of requests for a hearing were filed before the expiration of the notice period by CREF participants, colleges and universities, and mutual fund complexes. Several hearing requests were also filed on CREF's request for temporary exemptive relief pending the outcome of any hearing that might be ordered on its exemptive application.

Public Utility Holding Companies

There are now 13 registered public utility holding company systems with aggregate assets, as of June 30, 1987, of $87.3 billion, an increase of $4.3 billion, or 5.2 percent over June 30, 1986. Total operating revenues, as of June 30, 1987, were $31.9 billion, a $2.0 billion decrease from June 30, 1986. There are 68 electric or gas utility subsidiaries, 73 non-utility subsidiaries, and 24 inactive companies in the 13 registered systems, a total of 178 companies operating in 24 states (excluding seven power supply subsidiary companies).

In June 1987, the Commission published for comment a proposed amendment to Rule 45 under the Holding Company Act. The proposed amendment would make unnecessary the filing of declarations for orders of the Commission approving routine agreements where a parent company in a registered holding company system guarantees, assumes joint liability upon, or acts as surety or indemnitor for the obligations of its subsidiary company. Comments received have indicated that substantial savings will inure to consumers and shareholders by the adoption of the proposed rule amendment.

Holding Company Financings—During fiscal year 1987, the Commission authorized $6.3 billion of senior securities and common stock financing for the 13 registered systems: $5.0 billion in long-term debt financing, with $1.3 billion in common and preferred stock. Long-term debt financing decreased by 34.3 percent from fiscal year 1986, primarily due to an increase in long-term interest rates, which reduced the economic incentives to refinance. In addition, approximately $430 million in pollution control financing and $5.5 billion in short-term debt financing were approved. The pollution control financing was a 61 percent decrease from amounts authorized in fiscal year 1986. Short-term debt increased by 4.3 percent over the previous year. Total financings in fiscal year 1987 of $12.3 billion were less than financings authorized in fiscal year 1986 by $3.4 billion, a decrease of 21.9 percent. The Middle South Utilities, Inc. system accounted for approximately

15 percent of the total financing authorized under the Holding Company Act. The Commission also authorized over $1 billion for fuel exploration and development activities during fiscal year 1987. Substantial expenditures in fuel procurement were incurred through the acquisition of $546 million of nuclear fuel and over $380 million in coal mining equipment and refinancing.

The Commission's continuing review of holding company fuel procurement activities, accounting policies, audits of service companies and annual reports of the subsidiary service companies and fuel procurement subsidiaries, and the review of quarterly reports by non-utility subsidiaries resulted in savings to consumers during fiscal year 1987 of approximately $45.0 million.

The Commission required electric subsidiaries of public utility holding companies to credit revenues from their selling excess oil and gas ($32 million), and subleasing coal and oil barges ($13 million) to their fuel costs, reducing consumer electric bills.

Significant Applications And Interpretations

Investment Company Act—The Commission authorized ML-Lee Acquisition Fund, L.P., a limited partnership regulated as a business development company under the Investment Company Act, to make joint purchases with its investment adviser of so-called "mezzanine securities" (subordinated debt and preferred stock with equity participation) issued in connection with leveraged buyouts. ML-Lee Acquisition Fund is the first leveraged buyout investment company made available to retail investors. Its investment policies prohibit the fund from providing financing for hostile takeovers.

Applications of FmHA Trust and ED Trust were filed by private parties on behalf of trusts established to acquire loans made by the Farmers Home Administration of the Department of Agriculture and the Department of Education. Exemptive orders under the Investment Company Act were granted for the FmHA Trust on August 24, and for the ED Trust on September 18. The FmHA Trust and the ED Trust are collateralized by non-recourse loans originated by the respective agencies being sold as part of the federal government's pilot loan asset sales program.

An application filed by the National Rural Utilities Cooperative Finance Corporation was granted to exempt specified trusts it had established from most of the provisions of the Investment Company Act in connection with the public sale of certificates representing trust participation interests. Each trust will hold a single note guaranteed by the Rural Electrification Administration evidencing loans used to refinance borrowings from the Federal Financing Bank.

Holding Company Act—The Commission authorized Consolidated Natural Gas Company (Consolidated), a registered holding company, to form a new, wholly-owned, gas marketing subsidiary, CNG Trading Company (CNG Trading), to engage in the marketing of low cost, non-regulated gas supplies.[134] CNG Trading will purchase, pool, transport, exchange, store and sell gas supplies from competitively priced sources, including the spot markets, independent producers and brokers, as well as from Consolidated system producing affiliates, CNG Development Company and CNG Producing Company.

The Commission authorized Middle South Utilities, Inc. (MSU), a registered

holding company, and its wholly-owned generating subsidiary, System Energy Resources, Inc. (formerly Middle South Energy, Inc.), to guarantee potential rate refunding obligations of Mississippi Power & Light Company (MP&L), an operating subsidiary of MSU.[135] The guarantees were needed to obtain a bond to maintain a stay pending MP&L's appeal to the United States Supreme Court in the case of *Mississippi Power & Light Co. v. State of Mississippi.*

Central and South West Corporation (CSW), a registered holding company, and its wholly-owned subsidiary, CSW Credit, Inc. (CSW Credit) (collectively, Companies), was authorized to factor accounts receivable of the CSW electric utility companies.[136] Related financing was also approved. CSW Credit was also authorized by the Commission in July 1986, to purchase receivables of nonassociate electric utility companies, subject to the condition that the average amount of such purchases during any twelve-month period would be less than the corresponding amount of associate company receivables. Related financing was also authorized. The Companies are now requesting the removal of the limitation imposed by the 1986 order upon the factoring of nonassociate electric utility receivables by CSW Credit.

The Commission authorized Wisconsin Energy Corporation to acquire all of the common stock of the Wisconsin Electric Power Company and the Wisconsin Natural Gas Company, and exempted it from all provisions of the Holding Company Act except Sections 9(a)(2), subject to certain conditions.[137] Requests for a hearing were denied; however, jurisdiction was reserved on the retention of gas properties along with electric properties.

In a letter dated March 5, 1987, the Division stated it was unable to concur in the opinion of counsel for Noverco, Inc. (Noverco) that the acquisition by Noverco of the limited partnership interests of the limited partners in Energy Future Limited Partnership (EFLP) would not require prior approval by the Commission under Sections 9(a)(2) and 10 of the Holding Company Act. EFLP is the owner of all of the voting securities of New England Gas Corporation (NNEG). NNEG, in turn, owns all of the voting securities of Vermont Gas Systems, Inc. (VGS), a small gas utility incorporated and operating in Vermont. Based upon the facts and circumstances, the Commission was unable to conclude that the transaction would not constitute an indirect acquisition by Noverco of 5% or more of the voting securities of NNEG, and hence of VGS. Noverco is already an affiliate of a Canadian gas utility company.

In a letter dated June 18, 1987, to Central and South West Corporation (CSW), a registered holding company, the Commission refused to assure CSW that it would not recommend any enforcement action to the Commission under the Holding Company Act should a trust, funded by CSW, acquire shares of a non-affilated electric utility even though CSW would agree (1) not to acquire the shares from the trust without prior Commission approval under Section 9(a) of the Holding Company Act; and (2) to dispose of the shares held by the trust if approval for CSW to acquire them was denied or not received within a specified period. In the Commission's view, the acquisition by such a trust would constitute an indirect acquisition by CSW of public utility securities and would be unlawful under Section 9(a)(1) unless approved in advance by the Commission under Section 10.

Institutional Disclosure Program—Securities Exchange Act Section 13(f)(1)

and Rule 13f-1 require specified "institutional investment managers" to file quarterly reports on Form 13F. As noted above, under Rule 13f-2 (T), effective July 1, 1987, these managers may file the report on Form 13F-E through magnetic tape by using the Commission's pilot electronic disclosure system, EDGAR. Managers filing these reports disclose specified equity holdings of the accounts over which they exercise investment discretion. As of June 30, 1987, Form 13F reports had been filed by 1,683 managers for holdings totaling $1.375 trillion.

Form 13F reports are available to the public at the Commission's Public Reference Room promptly after filing. Two tabulations of the information contained in these reports are available for inspection: (1) an alphabetical list of the individual securities, showing the number of shares held by the managers reporting the holding; and (2) a list with the total number of shares of a security reported by all reporting managers. Both tabulations normally are available two weeks after the date on which the reports must be filed.

The tabulations are prepared by a independent contractor selected through the competitive bidding process. The contractor provides its services to the Commission without charge, and is required to make a variety of specified tabulations available to the public at reasonable prices within ten days after receiving the reports.

Other Litigation and Legal Activities

Key 1987 Results

	FY '84			FY '85			FY '86			FY '87		
	Win	Loss	Other*	Win	Loss	Other*	Win	Loss	Other*	Win	Loss	Other*
Supreme Court and Appellate Courts	37	8	5	36	4	5	32	3	2	31	3	2
District Court	26	2	2	23	3	2	21	0	1	14	3	0
Bankruptcy Court	13	3	2	20	5	0	13	3	1	4	7	1
Other**	4	0	0	7	0	0	4	1	0	3	0	0

* Issue not reached, split decision, etc.

** State Courts and Administrative Tribunals.

The General Counsel represents the Commission in all litigation in the United States Supreme Court and the Courts of Appeals, defends the Commission and its employees when sued, prosecutes administrative disciplinary proceedings against securities professionals, and appears amicus curiae on behalf of the Commission in significant private litigation involving the federal securities laws. In addition, under the supervision and direction of the General Counsel, the regional offices represent the Commission in corporate reorganization cases under the Bankruptcy Code that have a substantial public investor interest. The General Counsel also analyzes legislation that would amend the federal securities laws or otherwise affect the Commission's work and prepares legislative comments and congressional testimony. In addition, the General Counsel reviews proposed Commission action to ensure that enforcement and regulatory programs are consistent with the Commission's statutory authority.

The General Counsel represented the Commission in 304 litigation matters in fiscal year 1987. During the year, 36 court of appeals and Supreme Court cases were concluded, all but three favorably to the Commission. There were 16 appeals in Commission injunctive actions, six of which were concluded, with only one outcome unfavorable to the Commission. By comparison, the General Counsel handled 285 litigation matters in fiscal year 1986, including 18 appeals in injunctive actions. Seven such appeals were concluded in 1986, with only two outcomes unfavorable to the Commission.

In fiscal year 1987, there also were 23 appellate and district court actions seeking to overturn Commission orders in administrative proceedings or affirming self-regulatory organization disciplinary proceedings against securities professionals. Of these appeals, ten were concluded, with only one adverse result. Eight such actions were concluded in fiscal year 1986, with no adverse results.

The Commission participated as amicus curiae in 46 cases during the year, compared to 42 such cases in fiscal year 1986. It participated in nine private cases that were decided, only one of which resulted in a decision adverse to the Commission.

The General Counsel also handled more than 217 other proceedings before the Commission or in the federal district courts. These included 56 suits brought

against the Commission or its staff, and 86 suits seeking access to Commission documents, including actions under various public information statutes. Of the latter, 78 suits involved discovery subpoenas in private actions where the Commission is not a party. In fiscal year 1986 there were 24 suits brought against the Commission or its staff and 54 suits (including 46 third-party subpoenas) under the various public information statutes.

During fiscal year 1987, 94 debtors with publicly-held securities registered under the Securities Exchange Act of 1934 (Exchange Act) commenced Chapter 11 reorganizations. The Commission entered its appearance in 32 of these cases, which involved assets of $22.6 billion and nearly 380,000 public investors. The largest of these proceedings was that of Texaco, Inc., with $18.3 billion in assets and about 275,000 public investors. The 32 Chapter 11 cases are set forth in Table 38 of the Appendix to this report.

In addition to litigation, the General Counsel is involved in significant legislative and regulatory work. For example, the office assisted the Chairman and the Commissioners in preparing testimony on a number of important issues, such as the Commission's insider trading program and development of a definition of insider trading; securities laws aspects of the sale of federal government loan assets; regulation of corporate takeovers; and the proposed Agricultural Credit Act of 1987, which would provide for the creation of securities backed by pooled Farmers Home Administration loans. The office also assisted the Commission in preparing a legislative proposal to amend the Exchange Act to permit the Commission to regulate certain brokerage activities of banks.

Litigation

Appeals In Commission Enforcement Actions—This litigation consists of appeals of district court decisions in Commission injunctive actions. In most cases, the defendants ask a court of appeals to reverse a district court's finding of securities violations and its order enjoining future violations or providing for other relief such as disgorgement of illegal profits. The Commission also may appeal when it is denied relief.

In *SEC v. Burns*,[138] the United States Court of Appeals for the Ninth Circuit affirmed a district court decision that a company's chief executive violated a Commission rule prohibiting participants in a stock distribution from purchasing that stock during the distribution. The defendant had provided two corporate officers with company funds to buy stock during the distribution. He argued that he did not violate the rule because some of the purchases had been made before the registration statement was filed and hence before the "distribution" commenced, and because the remaining purchases were made after the distribution was completed. The court held that a distribution of securities may commence whenever there is an incentive to influence the market artificially, even before a registration statement is filed. Because the defendant had such an incentive in this case, the purchases took place during a distribution. Moreover, the court held that any inducement to purchase securities during the distribution period violates the rule, even if the actual purchase is made outside that period. The court also affirmed the district court's decision that the defendant acted with scienter when the company improperly inflated its revenues in financial statements filed with the Commission.

The Commission has appealed to the United States Court of Appeals for the District of Columbia Circuit a district court decision refusing to enter an injunction, on First Amendment grounds, against a magazine publisher for violating the touting disclosure provision of the Securities Act of 1933 (Securities Act). In *SEC v. Wall Street Publishing Institute, Inc.*,[139] the Commission had requested an injunction to require a publisher to disclose that drafts of articles promoting securities of companies were supplied by those companies. The Commission argued that such an injunctive order, written in the language of the statute, is a valid way to enforce an antifraud provision, and thus is not an impermissible prior restraint of the press.

In *SEC v. The American Board of Trade, Inc.*,[140] the United States Court of Appeals for the Second Circuit affirmed a district court decision to appoint a receiver for the defendant companies and their affiliates. The court had previously issued two decisions in this litigation holding that the defendants were illegally selling corporate notes issued by one of the defendant companies,[141] and that the defendants could not effect registration of the notes because the defendants were unable to provide required certified financial statements.[142]

Finally, the positions of the Commission were affirmed without opinion in two cases. In *SEC v. Charles Byers*,[143] the United States Court of Appeals for the Third Circuit affirmed a district court decision ordering that all of the proceeds of illegal securities sales be distributed to all defrauded investors on a *pro rata* basis, rather than imposing a constructive trust on some of the proceeds in favor of certain investors. In *SEC v. Zoe Products, Inc.*,[144] the United States Court of Appeals for the Ninth Circuit affirmed the district court's entry of summary judgment for the Commission, finding that the company and its chief executive officer acted with scienter when they recklessly misstated facts concerning the company's financial condition and future business prospects.

Petitions to Review Commission Orders—Petitions to courts of appeals for judicial review of Commission orders arise from administrative proceedings conducted under various provisions of the federal securities laws. These proceedings include Commission review of disciplinary actions by national securities exchanges and the National Association of Securities Dealers, Inc. (NASD), which often involve interpretative issues central to the Commission's own enforcement program and thus to the integrity of the securities markets.

During fiscal year 1987, petitions for review were filed in several cases where the Commission proceeded against broker-dealers for underwriting violations. In *C.E. Carlson, Inc. and Charles E. Carlson v. SEC*,[145] a broker-dealer and its president have requested review by the United States Court of Appeals for the Tenth Circuit of a Commission decision imposing sanctions for fraudulently closing a "part-or-none" public offering. Petitioners, without disclosure to purchasers, personally bought the final twelve percent of the shares needed to close the offering, financed the purchases in large part with loans arranged from persons with a financial interest in the offering, and then repaid the loans with money obtained from the proceeds of the offering. The Commission had ruled that these transactions defrauded public investors by vitiating the part-or-none condition on which they had relied.

Similarly, in *Lowell H. Listrom & Co. v. SEC*,[146] the United States Court of Appeals for the Eighth Circuit affirmed the Commission's determination that a

broker-dealer violated Exchange Act recordkeeping, confirmation, and credit-extension regulations in connection with "best-efforts" underwritings. In affirming the Commission's decision, the court gave substantial deference to the Commission's interpretation of its own rules. The court also agreed with the Commission's finding that the broker-dealer, by paying for the securities of certain customers in the underwritings, had extended credit to those customers in violation of the Exchange Act.

A third case, pending before the District of Columbia Circuit, seeks review of a Commission decision upholding NASD sanctions imposed on principals of a broker-dealer for concealing their purchases of approximately one million shares in a "best efforts, all-or-none" public offering. In *Svalberg v. SEC*, consolidated with *Lippitt v. SEC*,[147] petitioners argue that their purchases were immaterial, that they acted without scienter, and that the Commission abused its discretion in affirming their sanctions. The Commission argues that the purchases were material and that petitioners' conduct constituted knowing or reckless misrepresentation in connection with the purchase of securities. Moreover, an underwriter's undisclosed actions to complete an otherwise unsuccessful all-or-none offering are fraudulent.

Review has been sought in two cases where the Commission held that securities professionals failed to determine whether sales were part of an unregistered distribution. For example, in *Butcher & Singer, Inc. and Thomas A. Grey v. SEC*,[148] the United States Court of Appeals for the Third Circuit affirmed the Commission's determination that a broker-dealer violated the registration provisions of the Securities Act by failing to conduct an inquiry into the need for registration when one of the firm's salesmen sought to sell, through the firm, a large amount of a little-known stock he owned. The Commission had found a breakdown in the firm's compliance procedures because the trader who sold the salesman's stock did not make a thorough inquiry into the need for registration or delegate that responsiblity to someone else within the firm.

Similarly, in *Kane v. SEC*,[149] a registered representative of a broker-dealer seeks review of a Commission order suspending him from association with any broker-dealer for six months because of his participation in the sale of unregistered securities. The Commission argues that the petitioner was responsible for determining whether the securities could be sold without registration, and that he failed to make the "searching inquiry" necessary for this determination. The Commission contends that the sanction imposed on the petitioner, which the court may reverse only for gross abuse of discretion, was not too severe, and is appropriate to deter Kane and others from such violations in the future.

The severity of a sanction imposed by the Commission is frequently challenged. In *Kuznetz v. SEC*,[150] the United States Court of Appeals for the District of Columbia Circuit upheld a Commission order barring petitioner from association with any broker or dealer based on a finding that he defrauded customers by making false and misleading representations about a company's stock. Petitioner had argued that the Commission failed to specify its reasons for increasing the sanction recommended by the administrative law judge and abused its discretion when it barred him from association with a broker or dealer. In upholding the sanction, the Court pointed to the Commission's findings that petitioner had extensive experi-

ence in the securities business, that he had engaged in serious misconduct over the course of a year, and that he must have been aware that there was no reasonable basis for his recommendations to his customers.

The United States Court of Appeals for the District of Columbia Circuit affirmed the Commission's imposition of a six-month suspension in *Dirks v. SEC*.[151] The sanction was levied pursuant to the Securities Investor Protection Act of 1970 (SIPA) after the Commission found that petitioner was negligent when he failed to take appropriate action in response to warnings that the brokerage firm of which he was general partner was in precarious financial condition. The Commission found that his negligence contributed to the firm's insolvency and subsequent liquidation. Petitioner argued that the sanction provision of SIPA, which authorizes the Commission to impose sanctions if "in the public interest", is unconstitutionally vague. The Court, however, found that when Congress directs an agency to act in the public interest, it is the agency's job to define that standard. In this case, the Commission had given petitioner fair warning of what conduct was proscribed because a prior administrative opinion had announced the use of a negligence standard for sanctions under SIPA.

Petitioners in *Blinder, Robinson & Co. and Meyer Blinder v. SEC*,[152] also pending before the District of Columbia Circuit, make a broad attack on, among other things, the Commission's sanction determinations. The Commission had suspended a broker-dealer's registration for 45 days, limited the firm's underwriting activities for two years, and barred its president from association with any broker-dealer—provided that he may reapply for association after two years. The Commission proceeding was based on the entry of an injunction against petitioners in a prior Commission civil action and on the findings of violations made in that action. Petitioners argue that the Commission employs a "double standard" in sanctioning broker-dealers based on whether they are affiliated with the New York Stock Exchange (NYSE). The Commission's order imposing sanctions found that, in light of petitioners' serious and repeated violations and their regulatory history, the sanctions were well within the Commission's discretion.

In the same case, petitioners also attack the Commission enforcement action that was the basis for the administrative proceeding. They argue that the formal order authorizing the investigation violated the Fourth Amendment. The Commission responds that, since a formal order is neither a search nor a seizure, the Fourth Amendment does not apply. Separately, petitioners argue that it is a violation of due process for the Commission to litigate an injunctive action in district court and then initiate an administrative proceeding to impose sanctions for the same conduct.[153] The Commission argues that it is well-established that administrative agencies may combine investigatory, prosecutorial and adjudicative functions. Moreover, there is no due process violation where an independent decisionmaker —a federal court—decides that petitioners have violated the securities laws, and the Commission subsequently makes a separate determination of whether the public interest requires a limitation upon petitioners' participation in the securities business.

Petitioners also have sought judicial review of Commission orders in a variety of other contexts. For example, the United States Court of Appeals for the Eighth Circuit affirmed the Commission's order in *Pagel, Inc. v. SEC*,[154] where the Commis-

sion had found that, through the use of nominee accounts and other manipulative devices, a broker-dealer and certain of its affiliates had unlawfully manipulated the market price of common stock issued in connection with the first public offering of an unseasoned research and development company.

The United States Court of Appeals for the Ninth Circuit is currently considering a petition to review the Commission's order in *Rutherford v. SEC*.[155] In that case, the Commission had affirmed a two-month bar imposed by the NYSE against the petitioner for deliberately lying on the Uniform Application for Securities Industry Registration in response to two questions concerning arrests and convictions. Petitioner insists, among other things, that there is no public interest in imposing a sanction since his arrests and conviction were not securities-related. The Commission contends that the sanction was not imposed on petitioner because of his arrest and conviction record, but because he deceived the NYSE. Therefore, it was in the public interest to sanction him to deter future acts of deception.

Finally, in *Newell v. SEC*,[156] the United States Court of Appeals for the Ninth Circuit dismissed a petition for review of a Commission order as untimely on the ground that it was filed 63 days after the date of entry of the order, instead of within the 60-day period allotted by statute. Newell contended that, for purposes of appellate jurisdiction, the date of entry of the order was the date on which notice of the order is received. The court, however, agreed with the Commission that, under the Commission's Rules of Practice, the date of "entry" of a Commission order is "the date of the adoption of the order by the Commission, as reflected in the caption of the order," and held that the rule is appropriate.

Constitutional Challenges To Commission Enforcement Authority—In several recent cases, defendants in Commission enforcement actions have moved to dismiss suits on the ground that the Commission, as an independent agency whose members are not removable at will by the President, is barred by Article II of the Constitution from bringing enforcement actions. These defendants argue that law enforcement is an executive function that may only be exercised by an official who serves at the pleasure of the President.

In *SEC v. Thomas*,[157] the court denied this constitutional challenge from the bench. In *SEC v. Warner*,[158] the court rejected the constitutional attack in a written opinion relying heavily on a 1935 Supreme Court decision.[159] And in *The American Board of Trade, Inc. v. SEC*,[160] the court dismissed an action for declaratory and injunctive relief without reaching the constitutional issue, holding that plaintiffs could assert their claim as a defense in two pending Commission enforcement actions.

Another district court rejected a similar argument in *SEC v. Blinder, Robinson & Co.*[161] The defendants in that case subsequently raised the argument in two pending appeals—one to the United States Court of Appeals for the Tenth Circuit from the district court's denial of a motion to vacate an injuntion in the Commission's enforcement action,[162] and another to the United States Court of Appeals for the District of Columbia Circuit for review of a Commission order in an administrative proceeding.[163] In both cases, the Commission argues that the President's substantial authority over the Commission, including "for cause" removal power, satisfies the constitutional requirement that the President "take care that the Laws be faithfully executed."[164]

Commission Participation in Private Litigation—The Commission also participates as a friend of the court in selected private lawsuits that involve significant securities law issues. Such litigation is an important supplement to the Commission's enforcement program. In addition, because the federal securities laws provide for private remedies as well as government enforcement actions, decisions in private cases may have precedential effect on the Commission's own regulatory activities.

In *Shearson/American Express v. McMahon*,[165] the Supreme Court ruled, in accordance with arguments advanced by the Commission, that the Exchange Act does not preclude enforcement of pre-dispute arbitration agreements between brokers and customers to resolve Rule 10b-5 claims. The Commission had urged that a 1953 decision[166] holding a pre-dispute arbitration agreement unenforceable was not applicable in light of the expanded authority given to the Commission under the Exchange Act since 1975 to regulate arbitration procedures and ensure that statutory rights are adequately protected.

The Commission has participated in several cases concerning the availability of private remedies under the federal securities laws. *Pinter v. Dahl*,[167] pending before the Supreme Court, concerns what relief is available, and who may be liable, under Section 12(1) of the Securities Act, which provides a private remedy of rescission for violations of the Act's registration provisions. A purchaser of unregistered securities who had encouraged his co-plaintiffs to purchase brought this action to rescind the sales. The defendant argued that the plaintiff was "in pari delicto," or at equal fault, with the defendant and could not, therefore, rescind his purchases. The Commission takes the position that the issuer may raise an "in pari delicto" defense where (1) the plaintiff primarily promotes, rather than invests in, the securities offering, and (2) the plaintiff bears substantially equal responsibility for the issuer's failure to register the securities or for the decision to conduct the offering in a manner that requires registration. The Commission also takes the position that only persons who either pass title or who solicit a purchase may be found liable for the private remedy of rescission under Section 12(1). By contrast, Commission enforcement actions for violations of the registration provisions of the Securities Act may be brought against a broader range of persons, including aiders and abettors of the seller.

In the case of *Ettinger v. Merrill Lynch*,[168] a private litigant sued Merrill Lynch under Rule 10b-5 for selling zero-coupon bonds at alleged undisclosed excessive mark-ups. In a brief filed with the United States Court of Appeals for the Third Circuit, the Commission urged reversal of the district court's determination that a broker-dealer's compliance with routine confirmation disclosure requirements precludes fraud liability for undisclosed excessive mark-ups. The Commission also reiterated its long-standing position that undisclosed excessive mark-ups by securities dealers violate the general antifraud provisions of the securities laws.

In another case concerning the liability of a brokerage firm, the Commission has disagreed with a district court's determination that, when a firm employs a salesman as an "independent contractor," the firm cannot be liable for the actions of the salesman when he steals its customers' money. In *Hollinger v. Titan Capital Corp.*,[169] pending before the United States Court of Appeals for the Ninth Circuit, the Commission argues that, when a firm's salesman is not himself registered as a

broker-dealer, the salesman is an associated person of the firm, which has a duty to supervise him.

In *AZL Resources, Inc. v. Margaret Hall Foundation, Inc.*,[170] the Commission filed a brief urging that certiorari be denied on the question whether Exchange Act provisions that make a "controlling person" liable for acts of a company's employees or agents displace common law principles of vicarious liability. The Commission took the position that this question was not squarely presented in the case because the complaint alleged a claim that the company was directly liable for the fraud at issue. The Supreme Court denied certiorari.

The Commission filed a friend of the court brief in the United States Court of Appeals for the Second Circuit in *Brauer v. Options Clearing Corp.*[171] This case raised the question of whether there is an implied right of action, under Exchange Act provisions relating to clearing agencies and stock exchanges, for violations of the Options Clearing Corporation (OCC) by-law provision requiring adjustment of options prices and terms in the event of certain recapitalizations. The Second Circuit agreed with the Commission's position that options investors and the options markets generally are best served if the adjustment rule, which entrusts the decision to adjust the terms of an option contract to an OCC committee in its "sole discretion," is interpreted to be unreviewable except upon a showing of bad faith by the decisionmakers.

The Commission recently filed briefs in two cases addressing the question whether certain debt instruments issued by corporations not subject to federal bank regulation are securities under the federal securities laws. In *Holloway v. Peat, Marwick, Mitchell & Co.*,[172] the district court held that debt instruments sold to the public by a finance company, a trust company, and their parent holding company met the statutory definition of "security." Nevertheless, relying on *Marine Bank v. Weaver*,[173] the court concluded that the trust company instruments were not securities subject to regulation by the Commission. On appeal to the United States Court of Appeals for the Tenth Circuit, the Commission argues that the exception identified by the Supreme Court in *Marine Bank* was based on the applicability of a comprehensive federal bank regulatory scheme designed to ensure the solvency of the issuing bank and the safety of deposits. In *Holloway*, however, the issuers were not subject to federal bank regulation, or even to a comparable state bank regulatory scheme. Thus, the Commission urges that there is no justification for ousting the protection of the federal securities laws.

Similarly, in *Sanderson v. Roethenmund*,[174] the Commission contends that certain instruments called International Certificates of Deposit that are issued by a corporation not subject to bank regulation are securities under the federal securities laws because: (1) they are "notes" within the definition of "security" in the Securities Act and the Exchange Act; and (2) they are not subject to the *Marine Bank* exception. Additionally, the Commission argues that, because these instruments are within the statutory definition of security, they need not satisfy the test for "investment contract" under the law.[175]

The Commission successfully urged the United States Court of Appeals for the Tenth Circuit in *Busch v. Carpenter*[176] to reverse the district court's finding that certain securities were exempt from registration under the Securities Act's intrastate offering exemption. The court agreed with the Commission that this exemp-

tion is only available for a distribution of securities (including resales by persons purchasing without investment intent) within one state by an issuer "doing business" within that state. The court disagreed, however, with the Commission's position that the defendant must show that the original buyers bought with investment intent. Rather, it held that the defendant may make a prima facie case that the securities were distributed in-state by demonstrating that the stock was originally sold only to residents of that state. The plaintiff then has the burden of showing that the distribution continued through resales by those persons.

Finally, the Supreme Court, in an opinion involving the impact of the Hague Evidence Convention on the use of traditional discovery procedures, agreed with the position urged by the United States and the Commission that the Convention does not provide the exclusive means for obtaining evidence abroad. In deciding *Societe Nationale Industrielle Aerospatiale v. United States District Court for the Southern District of Iowa*,[177] the Court also rejected the argument that, before litigants may use ordinary discovery methods, they must resort to Convention procedures. Instead, the Court held that the particular facts of the case—including sovereign interests and the likelihood that resort to the Convention's procedures will prove effective—should determine whether the Convention procedures should be used.

Trading On Material Non-Public Information—Cases involving trading on material nonpublic information continue to be litigated actively. This year the Commission participated on appeal in three such cases.

In *Carpenter v. United States*,[178] the Commission and the United States argued to the Supreme Court that it should sustain the criminal convictions for securities, mail, and wire fraud of a newspaper reporter and two of his associates for trading securities while in possession of market-sensitive information stolen from the reporter's employer. On the securities law issue, the Government argued that their fraudulent scheme to purchase securities on the basis of nonpublic information stolen in breach of the reporter's fiduciary duty to his employer violated the federal securities laws. A primary purpose of the antifraud provisions is to preserve the integrity of the securities markets, and that integrity is threatened whenever persons obtain an unfair advantage by trading on stolen nonpublic information. Subsequent to the close of the fiscal year, the Supreme Court unanimously affirmed the mail and wire fraud convictions, and affirmed by an equally divided court the securities fraud convictions.

In *SEC v. Certain Unknown Purchasers of the Common Stock and Call Options of Santa Fe International Corp.*,[179] an action based on illegal insider trading, two objectors to a Commission settlement appealed to the United States Court of Appeals for the Second Circuit a decision by the district court to limit recovery from the disgorgement fund to those who sustained net losses during the period of illegal trading alleged in the Commission's complaint. The court dismissed the objection of one investor whose losses occurred before that period. With respect to the other investor, who had traded during the time period but who had sustained no net losses, the Court held that, in light of the limited size of the disgorgement fund, it was reasonable for the district court to allow recovery only for investors who suffered over-all losses.

Finally, in another insider trading action, *SEC v. Tome*,[180] the United States

Court of Appeals for the Second Circuit affirmed a judgment in favor of the Commission against defendants who traded on nonpublic information about a corporate takeover. The district court had enjoined the defendants—an Italian national, an Italian broker-dealer, and three Panamanian corporations—from further antifraud violations and ordered disgorgement of more than $5.1 million in illegal profits and interest. The court of appeals rejected the argument of the Italian defendants that the district court never obtained jurisdiction over them because they were never served personally with the complaint in the proceeding, but were served instead by notice published in a newspaper. Under the circumstances of this case—including efforts by the Italian defendants to deceive the Commission about their involvement in the illegal trades and difficulties posed by foreign bank secrecy laws—the publication notice was found by the court to be adequate and not in violation of constitutional due process guarantees. The court also dismissed arguments raised by all the defendants about the admissibility and sufficiency of the evidence, and rejected a challenge to the lower court's disgorgement order. (The court had earlier granted the Commission's motion to dismiss the appeal of another defendant in this case, who has refused to appear in response to an arrest warrant issued in a related criminal case, on the ground that he is a fugitive from justice.)

Tender Offer and Merger Litigation—This year, as in past years, the Commission filed friend of the court briefs in several cases involving tender offers and mergers.

In *CTS Corp. v. Dynamics Corp.*,[181] the Supreme Court upheld the constitutionality of the Control Share Acquisitions Chapter of the Indiana Business Corporation Law. The Commission and the United States had argued that the statute, which strips certain securities purchasers of voting rights unless "disinterested" shareholders vote to restore them, is an unconstitutional restraint on interstate commerce. The Court rejected that argument, holding that the statute, to the limited extent it affects interstate commerce, is justified by the state's interests in defining the attributes of shares in its corporations and in protecting shareholders. The Court also found that the statute does not discriminate against interstate commerce in securities since it does not distinguish interstate from intrastate acquisitions, and does not create an impermissible risk of inconsistent regulation by different states. In addition, the Court held that the Williams Act does not preempt the Indiana statute.

In a pending case, *Basic Incorporated v. Levinson*,[182] the Commission filed a brief in the Supreme Court concerning the standard for assessing the materiality of merger negotiations under Rule 10b-5. The brief also addresses the issue of whether the fraud-on-the-market theory can be used to show a plaintiff's reliance on fraudulent corporate statements. The Commission argues that the proper standard for materiality is whether a reasonable investor would consider the information significant in making investment decisions. The significance to investors of an uncertain event, such as a prospective merger, depends on balancing the importance of the merger to the company against the likelihood of its occurrence; merger activity is material if the activity significantly increases the possibility of a value-affecting merger. The Commission also argues that the fraud-on-the-market theory is appropriate where there is an active secondary market, so that the

price of securities reflects corporate misstatements disseminated in the marketplace. A plaintiff who relies on a market price that reflects fraudulent statements may be deemed to have indirectly relied on the fraudulent statements. Furthermore, the Commission argues, it is appropriate to presume that prices in active secondary markets do reflect corporate statements and that investors do rely on the integrity of the prices in those markets in making investment decisions.

At the request of the United States Court of Appeals for the Ninth Circuit, the Commission filed a brief in *Newmont Mining Corp. v. Pickens, et al.*,[183] arguing that the federal securities laws do not require that a tender offeror have a firm financing commitment in place before commencing a tender offer. Rather, the Commission argued, an offeror must fully and accurately disclose whatever financing arrangement has been made, and later amend its disclosure statement if and when it acquires firm financing. This may require the offeror to extend the period of the tender in order to give shareholders an adequate opportunity to consider the new information. The court held, in a two-to-one decision, that the federal securities laws do not require that a tender offeror have fixed financing before it commences an offer.

The Commission filed a friend of the court brief in the Texas Supreme Court in the case of *Texaco, Inc. v. Pennzoil Co.*,[184] supporting review of an intermediate state appellate court ruling that Pennzoil's contract to purchase stock did not violate Commission Rule 10b-13. The rule prohibits persons who have made a tender offer for a security from purchasing, or making an arrangement to purchase, the security other than through the tender offer. The Commission argued in its brief that the alleged contract was an arrangement by Pennzoil to purchase stock outside of its outstanding tender offer for that stock, and thus violated the rule. The Texas Supreme Court, finding no reversible error, refused to review the case.

Litigation Involving Requests for Access to Commission Records—Although the Commission received more than 5,000 Freedom of Information Act (FOIA) and confidential treatment requests in fiscal year 1987, only three of those requests resulted in the filing of court actions against the Commission. Two cases were resolved favorably to the Commission, and the third, decided adversely to the Commission, is on appeal. The Commission received 1,908 requests under the FOIA for access to Commission records and 3,205 requests for confidential treatment from persons who submitted information. In fiscal year 1987, there were 69 appeals of FOIA request denials to the Commission's General Counsel and four appeals of confidential treatment request denials.

In one of the FOIA cases, *Occidental Petroleum Corp. v. SEC*,[185] the plaintiff sought review of the Commission's partial denial of its request for confidential treatment of documents obtained by the staff during its investigation of questionable foreign payments by Occidental. The district court remanded the matter to the Commission for revision of its confidential treatment procedures and reconsideration of Occidental's request. The Commission's appeal of the district court's order is pending.

Litigation Against the Commission and Its Staff—During fiscal year 1987, the Commission and its staff were defendants in 56 actions in which persons sought to challenge Commission rules, to enjoin Commission law enforcement efforts, to

obtain awards for damages, or to challenge personnel decisions. The Commission prevailed in all but one of the 15 cases decided during the fiscal year.

In *Sprecher v. Fischer,*[186] the United States Court of Appeals for the Second Circuit upheld a district court order dismissing Sprecher's second challenge of an ongoing Commission investigation. The district court concluded that *res judicata* and collateral estoppel barred his claims. In *Panaro v. von Stein,*[187] the plaintiff has alleged that the same Commission investigation challenged in *Sprecher v. Fischer,*[188] is unlawful. Panaro's motion to dismiss the complaint with prejudice as to two defendants, and without prejudice as to the others, is pending.

In *Kendrick v. Zanides,*[189] plaintiff brought a baseless retaliatory private damages action against the Commission staff members who participated in successful civil and criminal prosecutions against him for various federal securities law violations. After dismissing the action, the court awarded the Commission attorney's fees as a sanction against plaintiff's counsel for filing this frivolous case. Plaintiff's counsel appealed the fee award to the United States Court of Appeals for the Ninth Circuit, but subsequently withdrew the appeal.

Three actions were filed under the Right to Financial Privacy Act seeking to block Commission subpoenas of bank records. In each of these cases, the district court found that the Commission was seeking the records for a legitimate law enforcement inquiry and ordered compliance with the Commission's subpoenas.

In addition, two motions were filed in fiscal year 1987 under the Equal Access to Justice Act seeking attorneys fees and expenses. The court awarded fees in the first case. The Commission's appeal of that award is pending. In the second action, an insider trading case, the court found that the Commission was substantially justified in bringing the suit and denied defendants' fee applications. The defendants' appeal of that order is pending.

Finally, three court actions were filed against the Commission raising allegations of illegal discrimination under Title VII of the Civil Rights Act of 1964. One of these actions is pending; the other two were decided favorably to the Commission.

Significant Legislative Developments

Insider Trading—On December 11, 1986, former Chairman Shad testified before the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce concerning the Commission's insider trading program. The Chairman discussed some of the Commission's recent significant insider trading cases, observing that these developments demonstrated the Commission's enhanced abilities to discover and prosecute inside traders.

During the 100th Congress, the Senate held a series of hearings on legislation to define insider trading. On June 19, 1987, Commissioner Cox testified before the Subcommittee on Securities of the Senate Banking, Housing and Urban Affairs Committee, concerning a statutory definition of insider trading. He stated that the Commission could support a statutory definition that preserved its enforcement authority, but the Commission did not support S. 1380, a proposal before the Subcommittee, because certain provisions in the bill would impede enforcement efforts. At the request of the Subcommittee, the Commission prepared its own proposal for an insider trading definition, which was submitted to the Subcommittee on August 3, 1987, and discussed by Commissioner Cox in testimony on August

7. Following the August 7 testimony, at the request of Senators Riegle and D'Amato, the Commission participated in efforts to develop a consensus proposal for legislation defining insider trading. As a result of this process, on November 18, 1987, the Commission submitted revised legislation defining insider trading.

Regulation of Corporate Takeovers—Both the House and Senate actively considered legislation concerning the regulation of corporate takeovers during the first session of the 100th Congress. In April 1987, Commissioner Cox testified before the Subcommittee on Antitrust Monopolies and Business Rights of the Senate Judiciary Committee. His testimony summarized the Commission's recent activity in the tender offer area and discussed various proposals for amending the law governing takeovers.

On June 23, 1987, Commissioner Cox testified before the Senate Committee on Banking, Housing and Urban Affairs concerning proposed corporate takeover legislation. Subsequently, on September 17, 1987, Chairman Ruder testified before the Subcommittee on Telecommunications and Finance of the House Committee on Energy and Commerce concerning legislative proposals on takeovers. The Commission's testimony generally supported legislation that would reduce the initial Schedule 13D filing period and, until a Schedule 13D is filed, prohibit further acquisitions once the filing threshold is crossed. The Commission also favored legislation to enhance its enforcement remedies for violations of the Section 13(d) reporting requirements, including the authority to seek monetary penalties. The Commission did not, however, support a number of other proposals that would substantially alter the present scheme for regulating tender offers.

Proposed Bank Broker-Dealer Act—On May 4, 1987, the Commission sent to Congress the proposed Bank Broker-Dealer Act, which would amend the Exchange Act to allow the Commission to regulate certain brokerage activities of banks. This legislation is an outgrowth of Rule 3b-9, which was invalidated by the United States Court of Appeals for the District of Columbia Circuit in November 1986. The proposal would amend the Exchange Act's definition of "broker" and "dealer" to include banks engaging in public solicitation of brokerage business, banks receiving transaction-related compensation for brokerage services provided to trust, managing agency or other advised accounts, and banks dealing in or underwriting securities. Additionally, the proposal would amend Section 15(a) of the Exchange Act to require that banks establish separate entities, registered with the Commission, to engage in securities activities, so that the Commission's regulation of those activities would not conflict with the regulation of banking activities by other agencies. The Commission believes that this legislation is necessary to protect the investors who do business with bank brokerage departments and to ensure that all entities engaged in the securities business are subject to a uniform regulatory scheme.

Proposed Truth in Savings Act—On August 5, 1987, General Counsel Daniel L. Goelzer testified on behalf of the Commission before the Subcommittee on Consumer Affairs of the Senate Banking, Housing, and Urban Affairs Committee in connection with the proposed Truth in Saving Act. That legislation would require uniform disclosure of interest rates payable on deposit accounts offered by depository institutions and of fees assessable against such accounts. The Subcommittee asked the Commission whether the bill should be amended to include investment

companies. The General Counsel stated that such an amendment was unnecessary because the Commission has broad authority to regulate investment company advertising, and has exercised that authority to require widespread dissemination of investor information. In addition, in light of the functional differences between deposit instruments and investment companies, there would be numerous practical problems if investment company activities were regulated under legislation designed for bank deposit accounts.

Agricultural Credit Act of 1987—On September 14, 1987, Congressman John D. Dingell, Chairman of the House Committee on Energy and Commerce, requested Chairman Ruder's views on H.R. 3030, the proposed Agricultural Credit Act of 1987, which would provide for the creation of securities backed by pooled Farmers Home Administration loans. On October 1, 1987, General Counsel Goelzer testified on this Act on behalf of the Commission at hearings held before the Subcommittee on Telecommunications and Finance of the House Committee on Energy and Commerce. By letter dated October 15, 1987, the Commission objected to the proposed exemption of such securities from the Securities Act and the Exchange Act, arguing that the securities law exemption granted to the securities of other federally chartered corporations should not be considered a precedent in the case of these new securities, where the federal guarantee would be for less than 100 percent of the value of such securities. The Commission also stated that brokers and dealers in the farm loan securities market should be regulated under the broker-dealer provisions of the Exchange Act, rather than the Government Securities Act of 1986, which regulates the activities of government securities dealers. Following the hearings, the proposed Agricultural Credit Act was amended to incorporate the Commission's recommendations.

Commission Authorization Request—On May 13, 1987, former Chairman Shad testified before the Subcommittee on Securities of Senate Banking, Housing, and Urban Affairs Committee in support of the Commission's authorization request for fiscal years 1988-1990. Commissioner Cox testified on the same subject before the Subcommittee on Telecommunications and Finance of the House Committee on Energy and Commerce on June 4, 1987. The authorization requests include a set of conforming, clarifying, and other technical amendments to the securities laws. In addition to correcting errors and deleting various obsolete provisions, the legislation would give the Commission and the appropriate bank regulators authority to sanction not only transfer agents but persons associated with transfer agents as well. The grounds for sanctions would be expanded from violations of the transfer agent provisions of the Exchange Act to include convictions, injunctions, administrative orders, and misconduct of the type that are grounds for sanctions against other securities professionals.

Financial Guarantee Study—Section 105 of the Government Securities Act of 1986 directed the Commission to perform a study concerning "the use of the exemption contained in [S]ection 3(a)(2) of the Securities Act of 1933 (15 U.S.C. 77c(a)(2)) for securities guaranteed by banks, and the use of insurance policies to guarantee securities." On August 31, 1987, the Commission transmitted its report, which concluded that the Section 3(a)(2) exemption places insurance companies at an apparent competitive disadvantage, since a corporate security backed by a bank standby letter of credit is exempt from the Securities Act's registration re-

quirements, but a corporate security backed by an insurance policy is not. The Commission, however, was unable to quantify the extent of disadvantage. To address any disparity, the Commission recommended that Congress amend Section 3(a)(2) of the Securities Act to eliminate the exemption from registration for securities issued or guaranteed by banks. At the same time, the Commission recommended that Congress amend the Securities Act to provide authority for the Commission to grant exemptive relief from the registration provisions of the Act for those securities or securities transactions for which full registration is unnecessary.

Report on the Internationalization of the Securities Markets—In July 1987, the Commission's staff submitted its Report on the Internationalization of the Securities Markets to the House Committee on Energy and Commerce and the Senate Committee on Banking, Housing, and Urban Affairs. This comprehensive report examined a wide range of issues raised by the accelerating internationalization of the securities markets, including: (1) United States and foreign disclosure and distribution requirements and their application to international issues of securities; (2) differing accounting and auditing standards in relation to multinational issues of securities; (3) the globalization of securities markets and its effects on broker-dealers, investment companies and investment advisers; (4) the enforcement of the United States securities laws in a global securities market; and (5) economic trends affecting internationalization. In preparing the report, the Commission staff conducted extensive research in the fields of law, economics and accountancy. The staff anticipates that the report will be used by Congress and the Commission to examine possible legislative, rulemaking, or policy initiatives to deal with internationalization of the securities markets.

Federal Government Loan Sales—On February 19, 1987, former Chairman Shad testified before the Senate Committee on the Budget about the applicability of the federal securities laws to the sale of federal government loan assets. On March 10, 1987, Commissioner Fleischman testified before the House Committee on Small Business on the same subject. Sales of such federal assets are mandated by the Omnibus Budget Reconciliation Act of 1986 in order to reach the Gramm-Rudman-Hollings fiscal year 1987 deficit target of no more than $144 billion. The Commission reviewed the applicability of the Securities Act to the proposed sales, possible statutory exemptions that might be utilized, and the requirements imposed by registration under the Securities Act. The Commission also examined how the government loan sales would be affected by other securities statutes, particularly the Exchange Act and the Investment Company Act of 1940.

Corporate Reorganizations

The Commission acts in a statutory advisor's role in reorganization cases under Chapter 11 of the Bankruptcy Code to ensure that the interests of public investors are adequately protected. In these cases a debtor generally is allowed to continue business operations under court protection while it negotiates a plan to rehabilitate the business and to pay the company's debts. Reorganization plans often provide for the issuance of new securities to creditors and shareholders in exchange for part or all of their claims or interests in the debtor, under an exemption in the Bankruptcy Code from registration under the Securities Act.

In its capacity as special advisor, the Commission may raise or present its views on any issue in a Chapter 11 case. Although the Commission may not initiate an appeal, it frequently participates in appeals taken by others. While Chapter 11 relief is available to businesses of all sizes, the Commission generally limits its participation to cases involving debtors that have publicly traded securities registered under the Exchange Act. In fiscal year 1987, the Commission presented its views on a variety of issues.

Committees—Official committees are empowered to negotiate with a debtor in possession on the administration of a case and to participate in all aspects of the case, including formulation of a reorganization plan. With court approval, an official committee is permitted to employ, as a cost of administration, one or more attorneys, accountants, or other agents to assist the committee in performing its duties. In addition to a committee representing creditors holding unsecured claims, the Code allows the court or a United States Trustee to appoint additional committees for stockholders and others where necessary to assure adequate representation of their interests. During fiscal year 1987, the Commission moved or supported motions for the appointment of committees to represent investors in three Chapter 11 cases.[190]

In *In re Johns-Manville Corp.*,[191] the Official Equity Holders Committee, appointed at the outset of the case to represent both common and preferred interests, moved to have itself disbanded because of irreconcilable conflicts over the debtor's proposed plan, and sought the appointment of separate committees to represent the two interests. The bankruptcy court disbanded the official committee but refused to appoint separate replacement committees. In so doing, the court relied principally on the presence of individual common and preferred shareholders who were active in the case. In addition, the court expressed its belief that shareholders would not suffer a "critical degree" of prejudice if new committees were not appointed. The Commission supported an appeal by both classes of shareholders to the district court, urging that the bankruptcy court had applied improper legal criteria in refusing to appoint the substitute committees. The district court, however, found no abuse of discretion in the bankruptcy court's refusal to appoint the committee. The court also concluded that, since Manville had already filed a plan of reorganization substantially diluting common stockholder interest, there was no longer a need for an official committee to represent shareholders.

The Commission supported a further appeal by certain Manville common stockholders to the United States Court of Appeals for the Second Circuit from this refusal to appoint a committee. In connection with this appeal, the Commission joined the stockholders in seeking to stay the hearing on confirmation of Manville's plan pending resolution of this key issue. The Commission urged that, contrary to the reasoning of the lower courts, a committee was needed to represent common stockholders at the critical stage of plan confirmation. The court denied the stay and thereafter dismissed the appeal without reaching the merits, holding that it lacked jurisdiction over the committee controversy since the order refusing to appoint an official committee was not a final, appealable order. The court concluded that such orders were reviewable only on appeal from the final order of plan confirmation or upon certification of an interlocutory order from the district court.

In *In re The LTV Corporation*,[192] the Commission, as a result of its experience

in *Manville*, filed a motion for the appointment of separate equity security holders committees to represent common and preferred stockholders. The Commission argued that, because the appointment of separate committees is economically feasible in a large case such as this (involving some $6.3 billion in assets), it is preferable to appoint such committees at the outset rather than waiting until an actual conflict develops. Appointing a single committee to represent both interests is appropriate only in smaller cases where it is economically infeasible for the estate to bear the cost of two committees for the duration of the case. The bankruptcy court disagreed with the Commission and appointed a single committee to represent both common and preferred shareholders.

Consistent with its reasoning in *LTV*, the Commission moved in *In re Towle Manufacturing Co.*[193] for the appointment of a single equity security holders committee to represent both common and preferred stockholders. The Commission concluded that, in light of the debtor's relatively small size and number of shareholders, two committees were impracticable. After initially denying the Commission's motion for a committee, the bankruptcy court, upon rehearing, ordered the appointment of a single stockholder committee.

The Commission responded on another important issue related to committees, in *In re Psych Systems, Inc.*,[194] to objections filed by creditors concerning the proper standard to be applied in awarding attorney fees for an official equity security holders' committee when the estate proves to be insolvent and shareholders do not ultimately participate in the plan of reorganization. The Commission urged that the provision in Section 330(a) of the Bankruptcy Code, which authorizes payment for the "actual and necessary" professional services of a committee, permits compensation for attorney's services reasonably related to the performance of duties within the scope of the committee's official responsibilities, without regard to whether those services produce a measurable benefit to the estate or to the committee's constituents. The Commission pointed out that the proper remedy is to disband a committee when it becomes apparent that the committee is unnecessary, rather than altering the standard of compensation for committee counsel at the end of a case. The bankrutpcy court, agreeing with the Commission, authorized payment to committee counsel.

Estate Administration—The Commission acts to protect the interests of public investors in reorganization cases by participating on selected issues involving administration of the debtor's estate that have a significant impact upon the rights of public investors.

In *In re Amarex, Inc.*,[195] the Commission supported an appeal to the district court by limited partner investors, urging reversal of the bankruptcy court's decision to subordinate all their claims pursuant to Section 510(b) of the Bankruptcy Code, which provides for the automatic subordination of rescission or damage claims arising out of the purchase or sale of securities. The Commission argued that Section 510(b) should not be read to subordinate every claim by a security owner against a debtor. The Commission pointed out that it is not uncommon for security owners to have distinct and legitimate claims other than securities fraud type claims and that Section 510(b) was not intended to affect those claims. The district court agreed with the position urged by the Commission, noting that the statute's language and the legislative history reveal that Congress intended subor-

dination to apply to claims related to the purchase or sale of a security—and to no other claims. An appeal to the United States Court of Appeals for the Tenth Circuit is pending.

The case of *In re Standard Metals*[196] raised the issue of whether a debtor that has taken no steps to give notice of the time for filing claims to potential creditors not listed on its schedules may cut off the right of such creditors who file late claims to participate in the reorganization. The bankruptcy court concluded that, because the claim involved in the case, which was based on the debtor's violations of the federal securities laws, was presumably unknown to the debtor before the claims bar date was established, notice of the bar date was not required. The district court affirmed. The Commission argued in an appeal to the United States Court of Appeals for the Tenth Circuit, that the Bankruptcy Code and rules impose a duty on the debtor to give at least publication notice to unscheduled creditors. In addition, the Commission argued that due process requires an appropriate form of notice before claims may be barred and discharged in a reorganization case. In its initial opinion, a panel of the court affirmed the lower courts' orders without reaching the question of notice.[197] A dissenting judge urged that due process required notice, and that the debtor and the bankruptcy court had a duty to give notice once the existence of creditors claiming fraud became known.

Thereafter, the court granted a petition for rehearing on the issue of notice. On rehearing, the Commission reiterated its view that the Bankruptcy Code and rules as well as due process require publication notice to unscheduled creditors.

The Commission also argued that, where creditors subsequently become known, the statute places a duty on the debtor and on the bankruptcy court to see that appropriate notice is directed to those creditors. The appeal on rehearing is pending.

The Commission has taken the position, both in *Standard Metals* and in *In re American Reserve*,[198] a Chapter 7 case in which the Commission is appearing as a friend of the court, that a creditor may file a class proof of claim in bankruptcy on behalf of other similarly situated creditors. In its briefs, the Commission has argued that neither the Bankruptcy Code nor the Bankruptcy Rules should be read to preclude the filing of class proofs of claims. In the Commission's view, the broadened claim concept adopted in the Bankruptcy Code, and the prospect that many individuals in a bankruptcy may have similar claims, are inconsistent with a restrictive interpretation of the proof of claim requirement. The Tenth Circuit in its initial opinion in *Standard Metals* disagreed with the Commission on this issue and ruled against class claims in bankruptcy. Likewise, a district court ruled in *American Reserve* against the filing of class proofs of claim. An appeal to the Seventh Circuit is pending in *American Reserve*, where the Commission has reiterated its long-standing position. An appeal is also pending on this issue in the district court in *In re Charter Co.*,[199] where the Commission has taken the same position.

Disclosure Statements/Plans of Reorganization—A disclosure statement is a combination proxy and offering statement used in soliciting acceptances of a plan of reorganization. Such plans often provide for the exchange of new securities for claims and interests of creditors and shareholders of the debtor. The Bankruptcy Code provides that adequate disclosure is to be made without regard to whether or not the information provided would otherwise comply with the disclosure require-

ments of the federal securities laws. But, in recognition of the Commission's special expertise on disclosure questions, the Bankruptcy Code recognizes the Commission's right to be heard, distinct from its special advisory role, on the adequacy of disclosure. For this reason, the Bankruptcy Rules require service on the Commission of all disclosure statements.

During fiscal year 1987, the Commission received approximately 5,288 disclosure statements filed in Chapter 11 cases involving both privately-held and publicly-held corporations. The staff limits its review to those disclosure statements filed in cases involving a publicly-held company or a company likely to be publicly traded as a consequence of the reorganization. During 1987, the staff reviewed 143 disclosure statements.

In its review of disclosure statements, the staff seeks to determine whether the issuance of securities under a plan is consistent with the exemption from registration in the Bankruptcy Code and otherwise in compliance with the federal securities laws. The Commission also reviews statements to determine whether there is adequate disclosure concerning the proposed plan. Generally, the Commission seeks to resolve questions concerning bankruptcy disclosure through staff comments to the plan proponent. If questions cannot be resolved through this process, the Commission may object to the disclosure statement in the bankruptcy court.

During fiscal year 1987, the Commission commented on disclosure statements in 108 cases, and objected to a disclosure statement in one case. In *In re Custom Laboratories, Inc.*,[200] the Commission filed objections to the debtor's disclosure statement, arguing that it contained inadequate information concerning management, the feasibility of the reorganization plan, and the basis for relying upon the bankruptcy exemption from Securities Act registration for the sale of securities to existing shareholders. The Commission also urged the court to order amendment of the plan to eliminate provisions that purported to release non-debtor individual liability. Following the filing of the Commission's objections, the debtor withdrew its disclosure statement.

In addition to specific disclosure concerns, the Commission acts to assure that public investors are given an opportunity to be heard on disclosure-related questions. From time to time, the Commission objects to confirmation of plans where there is a significant legal question presented. During fiscal year 1987, the Commission objected to confirmation in two cases and filed a brief on issues raised in an appeal from plan confirmation in a third case.

The Commission filed objections to confirmation of reorganization plans that provided for the discharge of third party liability for securities law violations in *In re Energy Exchange Corporation and Vulcan Energy Corporation*,[201] and *In re Storage Technology Corporation*.[202] The Commission argued that, unless there is separate consideration in exchange for the discharge, a plan cannot condition the receipt of distributions under a plan on release of claims against third parties. The Commission argued that such a discharge contravenes Section 524 of the Bankruptcy Code, which provides that the discharge of a debtor does not affect the liability of any other entity with respect to the debt. The Commission further argued that insofar as a plan purports to release persons from liability under the federal securities laws, it is contrary to public policy. In both cases, the bankruptcy courts

overruled the objections, holding that the release provisions of the plan were not improper discharges under the Code.

In *In re Johns-Manville,*[203] the Commission filed a brief in an appeal by common stockholders of the bankruptcy court's order confirming a plan of reorganization. In its brief, the Commission reiterated its position that common stockholders in that case were improperly denied representation at the confirmation hearing because of the bankruptcy court's refusal to appoint an official committee. The Commission, however, recognized that the error in refusing to appoint a committee did not necessarily require reversal and a new hearing. The Commission urged that the appropriate standard of review in light of the error was whether there was a reasonable possibility that the shareholders, if represented by a committee, could have presented evidence disputing the debtor's evidence of insolvency. The district court subsequently affirmed the bankruptcy court's order confirming the plan of reorganization.

Economic Research and Analysis

Key 1987 Results

The economic and statistical research program provides the Commission and the Divisions with the perspective and the technical support required to understand and evaluate the economic aspects of Commission regulation. This program is carried out by the Directorate of Economic and Policy Analysis (DEPA) and the Office of the Chief Economist (OCE).

The economic staff provides the Commission with economic advice and research studies on rule proposals, established policy and the capital markets. The staff assists the Commission in making decisions affecting the efficiency and structure of our nation's securities industry and markets. In addition, the program encompasses statistical monitoring of major program initiatives impacting the securities industry, domestic and international capital markets, and publication of the Commission's SEC Monthly Statistical Review.

Changes in the marketplace have increased the number and complexity of economic issues before the Commission. The trend toward increased internationalization of the securities markets, the recent turbulence in financial markets, the application of new technology within the industry, and the continued expansion of new financial products have greatly complicated the analysis of the impact of Commission regulation. New and more complex market structures and trading systems also increase the need for economic analysis. For example, the operation of options markets has significantly changed due to the introduction of new automated execution systems and as a result of different exchanges trading options on the same NASDAQ securities.

The world's securities markets have become more interdependent in response to economic, institutional, technological and regulatory forces. At the same time, the securities markets have assumed a larger role in the international capital market as international bond issues grew from $38 billion in 1980 to $225 billion in 1986. Regulatory changes are now occurring in the capital markets of, among others, the United Kingdom, Canada, Japan and France. There has also been a rapid maturation of foreign securities markets which have experienced faster growth rates compared to the United States market.

United States and Canadian securities markets have developed electronic trading links, and the London Stock Exchange now participates in the first transatlantic link with United States markets, exchanging quotation information in selected stocks. The National Association of Securities Dealers is also planning to begin the exchange of quotations with the Stock Exchange of Singapore. Additionally, the American Stock Exchange has entered into an agreement with the European Options Exchange which allows investors to open an options position in one market and close it in the other. United States clearing agencies have begun to develop links with clearing agencies from around the world.

During fiscal 1987, the economic staff reviewed 110 rules and rule proposals.

Rule reviews emphasized the economic costs and benefits of alternative approaches to regulation. In addition, advice was given to the operating divisions on requirements of the Regulatory Flexibility Act (RFA), particularly focused on reducing regulatory burdens on small business entities. In fiscal 1987, the economic staff reviewed 65 RFA analyses and certifications.

Also during the fiscal year, the staff prepared a report to Congress, in conjunction with other divisions and offices, on the internationalization of securities markets. Specifically, the economics staff analyzed: (1) the extent and nature of international trading in securities; (2) United States and foreign portfolio investment patterns; (3) the growth of the international bond and equity market; (4) major restructuring in overseas markets; and (5) the emergence of various international funds as vehicles to facilitate international capital flows. The staff published a major study on the effects of multiple trading in options based upon recent experience with options on OTC equities as well as on the traditional listed equities. The staff also prepared a report analyzing the use of repurchase agreements by broker-dealers and the risks which are involved in such transactions. This study was used as a framework for considering several amendments to the broker-dealer financial responsibility and recordkeeping rules. The staff also developed a system to detect and analyze possible instances of market manipulation involving the use of options.

In the full disclosure area, the staff prepared an empirical analysis of the trading and returns behavior of initial public offerings to assist the Commission in determining the appropriate time period needed for prospectus delivery. The staff also updated an earlier analysis of Schedule 13D filings to aid in determining the need for revisions in beneficial ownership reporting. Studies completed in the corporate control area covered such topics as sources of tender offer financings, dual class recapitalizations, effects of defeating takeover attempts, market anticipation of takeovers and the effects of the Ohio takeover law. Additionally, the economics staff assisted the Division of Corporation Finance in examining alternative criteria for establishing the threshold parameters for including corporations in the mandatory disclosure system. The staff prepared a study assessing the effects of Rule 415 (shelf registration) on the revenues of securities underwriters. Another study analyzed the effects of an accounting ruling which upheld a book value ceiling test for oil and gas companies using full-cost accounting.

The economics staff examined fund disclosure regarding the costs of buying, holding and redeeming mutual fund shares to determine if it is meaningful and accessible enough to assist investors in making informed decisions. Other analyses examined the use of fund assets in the distribution of mutual fund shares and the results of this practice for investors, investment companies and the fund distribution system. The staff also examined problems that have developed in mutual fund advertising practices in portraying fund performance and evaluated the impact of potential regulatory solutions on the effectiveness of fund advertising and the ability of investors to make informed decisions.

Management and Program Support

Key 1987 Results

The goals of program direction are to formulate and execute the Commission's policies and to efficiently manage the agency's resources in support of those policies. Those goals are accomplished primarily in two ways—policy management and administrative support. Policy management activities involve formulation, review and assessment, information dissemination, and executive resource management. Administrative support encompasses services such as accounting, data processing, staffing and logistics to support the Commission's work.

Policy Management

The Commission continued hosting roundtable discussions and other forums with industry and investor representatives on a variety of issues relating to the securities markets. The Commission held 120 meetings to consider approximately 570 rule proposals, enforcement actions, and other matters that significantly affect the health of the securities markets and the nation's economy. In addition, Commission officials testified in 19 Congressional hearings on topics such as tender offer regulation, insider trading, program trading, and the internationalization of the securities markets.

The Commission's management staff initiated 24 major projects during the fiscal year including reviews of the information security program and internal control objectives. In addition, numerous internal audits were conducted of Commission programs, activities and functions.

Consumer Affairs and Information Services

Consumer affairs specialists responded to approximately 40,000 complaints and inquiries during fiscal year 1987, representing an 11 percent increase over last year. Of these, approximately 46 percent involved investor disputes with registered broker-dealers, 23 percent related to general inquiries, and 18 percent concerned issuers of securities. The remaining complaints and inquiries related to mutual funds, transfer agents, banks, or investment advisers. The majority of complaint letters were processed internally. However, 29 percent of the letters were referred on behalf of the investor to investment firms for review and resolution. In addition, the Office of Consumer Affairs and Information Services developed materials to apprise investors of the current status of companies involved in class action litigation and bankruptcy proceedings, and also began revising its consumer education materials.

The office processed 1,908 Freedom of Information Act (FOIA) requests and 3,205 confidential treatment requests during the fiscal year, representing increases of 24 and 64 percent, respectively, over fiscal year 1986. Confidential treatment requests were typically made in connection with proprietary corporate information and were carefully evaluated. The staff also coordinated 2,005 Congressional re-

quests for Commission records, representing a 50 percent increase over last fiscal year. The Commission's FOIA regulations were amended to comply with the Freedom of Information Reform Act of 1986 and subsequent policy guidance from the Office of Management and Budget and the Department of Justice.

More than 21,000 visitors used the Commission's Public Reference Room in Washington, D.C. The public can view most corporate filings, broker-dealer and investment advisor registrations, Commission releases, and other public materials at this facility. Approximately 358,800 documents were recorded on microfiche and made available to the public during the fiscal year. The Commission also maintains Public Reference Rooms in the New York and Chicago regional offices.

Equal Employment Opportunity

The Office of Equal Employment Opportunity (EEO) staff conducted a one-hour seminar on the prevention of sexual harassment in the workplace for all Commission employees. The EEO staff also instructed 165 managers and supervisors from headquarters and two regional offices on issues dealing with EEO law, affirmative action, complaint processing, and other EEO matters.

During fiscal year 1987, the employment of women increased 2.7 percent. Employment for all other minority groups remained constant. The Commission's work force consists of 32 percent minorities and 49 percent women. As in past years, the contributions and achievements of minority groups and women were recognized with programs for Afro-American History Month, Asian-Pacific American Heritage Week, Hispanic Heritage Week, and Women's Week.

The Commission-Securities Industry Committee on Equal Employment Opportunity continued its financial support of minority students by awarding $17,000 in scholarships during the fiscal year. Scholarship funds were contributed by brokerage firms, exchanges, securities associations, broker-dealers, and investment advisers that are members of the Committee.

Facilities Management

The Office of Administrative Services (OAS) assisted in relocating the Boston regional office and the San Francisco branch office and began negotiating with the General Services Administration (GSA) on the forced relocation of the New York regional office. OAS also acquired additional space in the Commission's headquarters building to support expanded enforcement operations and the EDGAR project, requiring extensive alterations to accommodate new staff. In addition, GSA delegated contract authority to the Commission over the existing guard contract for the headquarters building. As a result, the Commission saved $70,000 because GSA no longer received reimbursement for administering the contract.

Financial Management

Commission funding in fiscal year 1987 was initially provided by an annual appropriation of $110.5 million. This amount was later increased by $4 million to cover the full costs of the January 1987 pay increase and the new Federal Employees' Retirement System (FERS). The Commission spent $112 million of its total appropriation. The remaining $2.5 million, consisting of unspent funds for the

EDGAR project and FERS, was returned to the Department of the Treasury (Treasury).

The Commission continued to improve its financial management programs. The use of microcomputers was expanded to expedite the preparation of financial reports required by the Office of Management and Budget and other executive oversight agencies. The fee collection process was enhanced through a greater use of electronic funds transfer and Treasury-sponsored lockbox facilities. Also, audits were conducted to ensure that distributed payroll, accounting and budget functions were performed in strict compliance with established regulations. The Commission reduced the amount of travel advances by increasing staff use of Diners Club cards and by receiving travel vouchers promptly from staff. As a result, an additional $70,000 was available for travel by program staff during the fiscal year. Finally, the Commission payroll system completed its third year as a host system available to other Government agencies.

During fiscal year 1987, Commissioners participated in 61 meetings and conferences. To pay the cost of attendance, private entities reimbursed the Commission $27,073 while the government's portion amounted to $8,201. Commission staff participated in 376 meetings and conferences. The Commission was reimbursed $109,319, while the government's portion of these costs totaled $30,865.

Information Systems Management

The Office of Information Systems Management (ISM) made significant progress in integrating and improving automation functions at the Commission. Specifically, ISM successfully awarded a contract to acquire 80 portable, laptop microcomputers for regional office examiners and investigators. ISM also acquired an additional 128 desktop microcomputers for use by headquarters staff. Microcomputers already have demonstrated their effectiveness for applications such as word processing and spreadsheet operations. In addition, ISM has initiated analyses and studies for an integrated office automation system at the Commission.

During fiscal year 1987, the Commission acquired and installed the Bridge Market Information system, which provides real-time price and volume information, as well as consolidated quotes and news items on stocks and options traded on the exchanges and over-the-counter. The system also provides historical trade information, including data on commodities and financial futures. This system has had a substantial impact on meeting the information requirements of the Commission staff in certain program areas because stock and futures trading can be monitored more effectively. The staff can also perform on-line comparisons between financial futures and their underlying indices and compute an annualized rate of return available through the execution of an arbitrage program.

ISM successfully awarded a contract to replace one of the Commission's obsolete mainframe central processing units. A request for proposals was released to procure a replacement for the remaining central processing unit with an award projected for early 1988. The new units will permit the Commission to upgrade its capability to respond to increasing information reporting and analysis requirements.

Personnel Management

During fiscal year 1987, employees currently enrolled in the Civil Service Retirement System were permitted to change to the new Federal Employees Retirement System (FERS) and to participate in the Thrift Savings Plan. The Commission successfully implemented FERS on schedule in January 1987. This effort required extensive coordination among the Offices of Personnel, the Comptroller, and Information Systems Management. The Office of Personnel provided counseling and disseminated information to help employees decide whether to switch to FERS. The Commission assisted employees further by providing decision advisors and a software package designed to analyze projected benefits under the two retirement systems.

The Office of Personnel improved its recruitment productivity through newly delegated hiring authority for research assistants, examiners, accountants, and secretaries. The office also obtained delegated authority to hire attorneys above minimum pay rates and to offer special pay rates to headquarters typists. In addition, the staff participated in two job fairs which were extremely beneficial in generating applications, interviews, and new employees in a variety of occupations.

The training program emphasized computer literacy skills by enrolling 223 employees in 301 microcomputer applications courses. Other improvements to the training program involved revising headquarters supervisory training to provide for more participation by top Commission executives as guest speakers and conducting special training on stress management and leadership.

The Office of Personnel took steps to improve the efficiency of its position management program. For example, three standardized position descriptions were established for use throughout the Commission. The office implemented new standards issued by the Office of Personnel Management for paralegal specialists. The Commission also initiated a program to study and evaluate occupations across organizational lines. In addition, several reorganizations were implemented and the accuracy of position descriptions were certified in half of the Commission's divisions and offices.

In November 1986, the Commission received the Outstanding Employer of the Year Award from the District of Columbia Rehabilitation Services Administration. This award recognized the Commission's efforts in hiring and training handicapped individuals and enhancing supervisors' understanding of the handicapped.

Public Affairs

The Office of Public Affairs communicates information on Commission activities to those interested in or affected by Commission actions, including regulated entities, the press, employees of the Commission and the general public. Both ongoing activities and special projects are undertaken by the office in support of the Commission's mission.

Public Affairs staff prepares the SEC News Digest, which provides information on vitually all SEC actions—rule changes, enforcement actions against individuals or corporate entities, acquisition reports, releases, decisions on requests for exemptions, upcoming Commission meetings, and other events of interest. Informa-

tion on Commission activity is also disseminated through notices of administrative actions, litigation releases, and other materials. The News Digest is available in the Public Reference Room.

Press releases issued prior to Commission meetings and press briefings conducted after these meetings provide insight into proposed and adopted changes in policies and regulation. The office also issues press releases on upcoming events, on-going programs, and special projects. In all, 89 news releases were issued during the year. When appropriate, actions are brought to the attention of the national and regional press. Special projects such as roundtable discussions on emerging issues in the financial markets are also publicized.

The office directs publication of the SEC Annual Report that provides information on Commission activities to Congress, the securities bar and other interested parties, and, through the Depositary Library System, to selected colleges and universities throughout the country.

Speeches presented by Commissioners and senior staff and testimony are retained and disseminated in response to requests from the public. During the year, the staff responded to approximately 69,500 requests for information and coordinated programs for 93 groups of foreign visitors. Also during the year, the staff updated and revised such publications as the "SEC Publications Guide", "Investigate Before You Invest", and "Q & A for Small Business".

Public Affairs publishes a regular newsletter, the Employee News, and prepares a daily summary of news clips for Commission employees.

Commission Operations

For the fifth consecutive year and the sixth time in the Commission's 53-year history, revenues collected exceeded the agency's annual appropriation. In fiscal year 1987, the Commission collected $278.4 million for deposit into the general fund of the United States Treasury. These revenues amount to 243 percent of the Commission's 1987 appropriated funds. Total collections consisted of $263.9 million in fee revenue and $14.5 million in disgorgements from fraud actions. Fee revenue is generated from four primary sources: (1) securities registered under the Securities Act of 1933 (61% of the total); (2) transactions on securities exchanges (24%); (3) tender offer and merger filings (12%); and (4) miscellaneous filings (3%).

Commissioners and Principal Staff Officers

(As of September 30, 1987)

Commissioners	Term Expires
David S. Ruder, *Chairman*	1991
Charles C. Cox	1988
Aulana L. Peters	1989
Joseph A. Grundfest	1990
Edward H. Fleischman	1992

Secretary: **Jonathan G. Katz**
Executive Assistant to the Chairman: **Linda D. Fienberg**

Principal Staff Officers

George G. Kundahl, *Executive Director*
- **Kenneth A. Fogash,** *Deputy Executive Director*

Linda C. Quinn, *Director, Division of Corporation Finance*
- **Elisse B. Walter,** *Deputy Director*
- **William C. Wood,** *Senior Associate Director*
- **Mary E. T. Beach,** *Associate Director*
- **Ernestine M. R. Zipoy,** *Associate Director*
- **Vacant,** *Associate Director*

Gary G. Lynch, *Director, Division of Enforcement*
- **John H. Sturc,** *Associate Director*
- **William R. McLucas,** *Associate Director*
- **Joseph I. Goldstein,** *Associate Director*
- **Phillip D. Parker,** *Chief Counsel*
- **Thomas C. Newkirk,** *Chief Litigation Counsel*
- **Michael D. Mann,** *Chief, Office of International Legal Assistance*

Richard G. Ketchum, *Director, Division of Market Regulation*
- **Mark D. Fitterman,** *Associate Director*
- **Brandon C. Becker,** *Associate Director*
- **Vacant,** *Associate Director*

Kathryn B. McGrath, *Director, Division of Investment Management*
Mary Joan Hoene, *Deputy Director*
Gerald Osheroff, *Associate Director*
Gene A. Gohlke, *Associate Director*
William C. Weeden, *Assistant Director, Office of Public Utility Regulation*
Daniel L. Goelzer, *General Counsel*
Paul Gonson, *Solicitor*
Jacob H. Stillman, *Associate General Counsel*
Benjamin Greenspoon, *Associate General Counsel*
Vacant, *Associate General Counsel*
Mary M. McCue, *Director, Office of Public Affairs*
Chiles T. A. Larson, *Deputy Director*
A. Clarence Sampson, *Chief Accountant*
Edmund Coulson, *Deputy Chief Accountant*
Jeffry L. Davis, *Director, Directorate of Economic and Policy Analysis*
Terry M. Chuppe, *Associate Director*
Charles W. Bryson, *Associate Director*
Kenneth Lehn, *Chief Economist*
William S. Stern, *Director, Office of Opinions and Review*
Herbert V. Efron, *Associate Director*
R. Moshe Simon, *Associate Director*
Warren E. Blair, *Chief Administrative Law Judge*
Lawrence H. Haynes, *Comptroller*
Henry I. Hoffman, *Assistant Comptroller*
Richard J. Kanyan, *Director, Office of Administrative Services*
David L. Coman, *Deputy Director*
James C. Foster, *Director, Office of Personnel*
William E. Ford, II, *Assistant Director*
Wilson Butler, *Director, Office of Applications and Reports Services*
Bonnie Westbrook, *Director, Office of Consumer Affairs and Information Services*
Gregory Jones, Sr, *Director, Office of Information Systems Management*
Steven N. Schelbe, *Deputy Director*
Cecile Z. Srodes, *Director of Legislative Affairs*
James A. Clarkson, III, *Director of Regional Office Operations*
Ernest B. Miller, *Manager, Equal Employment Opportunity*
John O. Penhollow, *Edgar Project Manager*
John A. Kelley, *Director, Office of Edgar Management*

Biographies of Commissioners

David S. Ruder

David Sturtevant Ruder was sworn in as the 23rd Chairman of the Securities and Exchange Commission on August 7, 1987, by Associate Justice Antonin Scalia of the Supreme Court of the United States.

Chairman Ruder was a member of the faculty of Northwestern University School of Law from 1961 to 1987, teaching in the field of corporate and securities law. He was dean of the School of Law from 1977 to 1985. He taught as a visiting professor at the University of Pennsylvania Law School in 1971 and was a faculty member at the Salzburg Seminar in American Studies in 1976.

He began his tenure as the tenth dean of the Northwestern University School of Law in September 1977 and was responsible for the conduct and the successful completion of an extensive and sophisticated faculty recruitment program that attracted 16 distinguished scholars and teachers to the faculty. He was an active participant in the planning, organization and successful completion of the $25 million Law School Campaign for endowment, renovation and new facilities. The Arthur Rubloff Building, the primary component of the Law School Campaign, was dedicated on August 4, 1984. It doubled the existing space for teaching, research and scholarship.

Chairman Ruder was instrumental in the negotiations to attract the headquarters of the American Bar Association, the American Bar Foundation, and the American Bar Endowment as tenants of Northwestern University in facilities adjacent to the Northwestern University School of Law, creating a national legal center and resource. The American Bar Center was dedicated on August 3, 1984. He relinquished his responsibilities as dean of the Northwestern University School of Law in July 1985 to return to research and teaching.

While at Northwestern, Chairman Ruder participated in planning the first Corporate Counsel Institute, held at the School of Law in 1962, and served as its director for five years (1963-67). He has been a member of the Institute's Planning Committee throughout most of its 25 years of existence.

Chairman Ruder has also been active in various bar-association activities. On the national level, Chairman Ruder has been actively involved in the American Bar Association Section on Corporation, Banking and Business Law since 1970, as a member of its Council (1970-74), its Committee on Federal Regulation of Securities (1974-present), its Committee on Corporate Law (1974-78; 1986-1987), its Ad Hoc Committee on the American Law Institute Corporate Governance Project (1986-1987); and as section competence advisor to the American Bar Association Standing Committee on Lawyer Competency (1986-1987). He has been chairman of the Public Interest Issues Committee.

Author of many articles on corporate and securities matters, Chairman Ruder has been a speaker and participant in continuing legal education programs of numerous organizations and has been active in bar association activities in the corpo-

rate and securities law field. While at Northwestern, he was active in the organization and on-going activities of the Ray Garrett, Jr., Corporate and Securities Law Institute and in the establishment of the Corporate Counsel Center at Northwestern University School of Law, which sponsors legal research and provides continuing professional education programs for corporate lawyers.

A native of Wausau, Wisconsin, Chairman Ruder received a bachelor's degree, cum laude, in 1951 from Williams College, where he was a member of Phi Beta Kappa and Gargoyle, the senior honorary society. He was editor-in-chief of the Williams Record, the college newspaper.

He received his law degree with honors in 1957 from the University of Wisconsin, where he was a member of the Order of the Coif and the recipient of the Salmon W. Dalberg Prize as the outstanding graduating student. He was editor-in-chief of the Wisconsin Law Review. Mr. Ruder served in the U.S. Army from 1951 to 1954, attaining the rank of First Lieutenant.

From 1957 to 1961, he was an associate with the Milwaukee law firm of Quarles & Brady, and while teaching at Northwestern was also of counsel to the Chicago law firm of Schiff, Hardin & Waite from 1971 to 1976.

Charles C. Cox

Charles C. Cox was sworn in as the 62nd Member of the Commission on December 2, 1983. His term expires in June 1988.

Mr. Cox joined the Commission on September 1, 1982, as Chief Economist. He organized the Office of the Chief Economist to analyze the economic effects of proposed rules and legislation, evaluate established Commission policy, and study various capital market topics.

Previously, Mr. Cox was a professor of management at Texas A&M University from 1980 to 1982, and a professor of economics at Ohio State University from 1972 to 1980. He served as a National Fellow of the Hoover Institution at Stanford University from 1977 to 1978.

During his academic career, Mr. Cox focused his research on the economics of public regulation of economic activity. He has published various articles on this topic in scholarly journals. Mr. Cox is a member of the American Economic Association.

Mr. Cox was born in Missoula, Montana, on May 8, 1945. He received his undergraduate education at the University of Washington where he was elected to Phi Beta Kappa in 1966, and earned a B.A. degree, magna cum laude, with distinction in economics in 1967. He received A.M. and Ph.D. degrees in economics from the University of Chicago in 1970 and 1975, respectively.

Aulana L. Peters

Aulana L. Peters was sworn in as the 64th Member of the Commission on June 11, 1984. Her term expires in June 1989.

Until her appointment, Mrs. Peters was a partner with the Los Angeles firm of Gibson, Dunn & Crutcher, which she joined as an associate in 1973. As a member of that firm's Litigation Department, she specialized in business and commercial litigation with emphasis on the securities and unfair competition areas, particularly

class action suits. About one-third of her law practice involved cases of alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934, representing both defendants and plaintiffs. She was also involved in tender offer/proxy contest litigation.

She has frequently served on legal panels and has lectured for the California Continuing Education of the Bar and others. Mrs. Peters is a member of the Los Angeles County and American Bar Associations.

From 1963 to 1967, she lived in Milan and then in Paris, where she held various positions, the last of which was an Administrative Assistant within the Secretariat of the Organization for Economic Cooperation and Development. She has also lived in San Salvador, Central America, and The Cameroons (West Africa).

Mrs. Peters, who was born on November 30, 1941, is the first black appointed to the Commission. She earned a J.D. with honors from the University of Southern California Law Center in 1973 and a B.A. in philosophy from the College of New Rochelle in 1963.

Joseph A. Grundfest

Joseph A. Grundfest was sworn in as the 65th Commissioner of the Securities and Exchange Commission on October 28, 1985. His term expires in June 1990.

Mr. Grundfest came to the Commission from the Council of Economic Advisers in the Executive Office of the President, where he was counsel and senior economist for legal and regulatory matters. While at the Council, he played an active role in the formulation of Administration policy regarding regulation of securities markets, financial institutions, international trade, and the reformation of the antitrust laws. Mr. Grundfest is both an attorney and economist. He has practiced law with Wilmer, Cutler & Pickering and has served as an economist with The Rand Corporation, the Brookings Institution, and Peat, Marwick & Mitchell.

Mr. Grundfest is author or co-author of numerous publications dealing with topics such as contests for corporate control, the legal and economic regulation of markets subject to kickback schemes, the regulation of markets for broadcast stations and television advertising, and the role of citizen participation in administrative proceedings. During his academic career, Mr. Grundfest served as a Brookings Institution Fellow, a Stanford University Fellow, and a California State Fellow for the Study of Law and Economics.

Mr. Grundfest was born in New York City on September 8, 1951. He received his undergraduate education at Yale University where he earned a B.A. degree in economics in 1973. During an undergraduate year abroad, Mr. Grundfest completed, with First Class Distinction, the M.Sc. Program in Mathematical Economics and Econometrics at the London School of Economics. Between 1974 and 1978, he earned his J.D. degree from Stanford University and completed all requirements, other than the dissertation, for a doctorate in economics.

Edward H. Fleischman

Edward H. Fleischman was sworn in as the 66th Member of the Securities and Exchange Commission on January 6, 1986. His term expires in June 1992.

He formerly practiced law with Gaston, Snow, Beekman & Bogue (previously Beekman & Bogue), where he specialized in securities and corporate law and related areas.

During his career, Mr. Fleischman has been elected a member of the American Law Institute, the American College of Investment Counsel and the American Society of Corporate Secretaries, and has served as an Adjunct Professor of Law teaching securities regulation at the New York University Law School. He has been a lecturer at seminars dealing with securities and futures law and practice. He was co-author of a series of articles relating to Commission Rule 144.

Mr. Fleischman was born in Cambridge, Massachusetts, on June 25, 1932. A member of the U.S. Army from 1952 to 1955, he served with the 173rd Military Intelligence Platoon in Germany from 1954 to 1955. Mr. Fleischman received his undergraduate education at Harvard College and graduated with a B.A. degree cum laude in history. He was a Stone Scholar at Columbia Law School, where he received his LL.B. degree in 1959.

Mr. Fleischman was admitted to the New York Bar in 1959 and to the bar of the U.S. Supreme Court in 1980. He serves on the Committee on Federal Regulation of Securities where he has chaired the Ad Hoc Subcommittee on Rule 144 and the Subcommittee on Broker-Dealer Matters, and was a co-draftsman of the Committee letter on utilization and dissemination of "inside" information. He is also a member of the Committee on Counsel Responsibility, and currently chairs the Committee on Developments in Business Financing where he co-drafted the Committee paper on resale of institutional privately placed debt and chaired the Subcommittee on Simplified Indentures in addition to the Annual Review of Developments. Other bar activities include membership on the Committee on Developments in Investment Services, and the Administrative Law Committee on Securities, Commodities and Exchanges where he was vice chair for Commodities before taking the chair for three years.

Regional and Branch Offices and Administrators

REGION 1

Vacant
NEW YORK REGIONAL OFFICE
26 Federal Plaza, Room 1028
New York NY 10278
212/264-1636
Region: New York and New Jersey

REGION 2

Douglas Scarff
BOSTON REGIONAL OFFICE
John W. McCormack Post Office
and Courthouse Building, Suite 700
Boston MA 02109
617/223-9900
Region: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut

REGION 3

Richard P. Wessel
ATLANTA REGIONAL OFFICE
1375 Peachtree Street, NE, Suite 788
Atlanta GA 30367
404/347-4768
Region: Tennessee, Virgin Islands, Puerto Rico, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida, and Louisiana east of the Atchafalaya River

Charles C. Harper
MIAMI BRANCH OFFICE
Dupont Plaza Center
300 Biscayne Boulevard Way, Suite 500
Miami FL 33131
305/536-5765

REGION 4

William D. Goldsberry
CHICAGO REGIONAL OFFICE
Everett McKinley Dirksen Building
219 South Dearborn Street, Room 1204
Chicago IL 60604
312/353-7390
Region: Michigan, Ohio, Kentucky, Wisconsin, Indiana, Iowa, Illinois, Minnesota, and Missouri

Mark A. Loush
DETROIT BRANCH OFFICE
1755 Patrick V. McNamara Federal Office Building
477 Michigan Avenue
Detroit MI 48226
313/226-6070

REGION 5

T. Christopher Browne
FORT WORTH REGIONAL OFFICE
411 West Seventh Street, 8th Floor
Fort Worth TX 76102
817/334-3821
Region: Oklahoma, Arkansas, Texas, Louisiana west of the Atchafalaya River, and Kansas

Joseph C. Matta
HOUSTON BRANCH OFFICE
7500 San Felipe Street, Suite 550
Houston TX 77063
713/266-3671

REGION 6

Robert H. Davenport
DENVER REGIONAL OFFICE
410 17th Street, Suite 700
Denver CO 80202
303/844-2071
Region: North Dakota, South Dakota, Wyoming, Nebraska, Colorado, New Mexico, and Utah

Donald M. Hoerl
SALT LAKE BRANCH OFFICE
U.S. Post Office and Courthouse
350 South Main Street, Room 505
Salt Lake City UT 84101
801/524-5796

REGION 7

Irving M. Einhorn
LOS ANGELES REGIONAL OFFICE
5757 Wilshire Boulevard, Suite 500 East
Los Angeles CA 90036-3648
213/468-3098
Region: Nevada, Arizona, California, Hawaii, and Guam

Bobby C. Lawyer
SAN FRANCISCO BRANCH OFFICE
901 Market Street, Suite 470
San Francisco CA 94103
415/995-5165

REGION 8

Jack H. Bookey
SEATTLE REGIONAL OFFICE
3040 Jackson Federal Building
915 Second Avenue
Seattle WA 98174
206/442-7990
Region: Montana, Idaho, Washington, Oregon, and Alaska

REGION 9

James C. Kennedy
PHILADELPHIA REGIONAL OFFICE
600 Arch Street, Room 2204
Philadelphia PA 19106
215/597-3100
Region: Pennsylvania, Delaware, Maryland, Virginia, West Virginia, and District of Columbia

FOOTNOTES

[1]Financial Disclosure cases include: *SEC v. Pulsar Oil and Gas, Inc., et al.*, (no release) (September 30, 1987); *SEC v. Texscan Corporation, et al.*, Accounting and Auditing Enforcement Enforcement Release No. 164 (September 30, 1987), 39 SEC Docket 579; *In the Matter of Universal Money Centers, Inc.*, Accounting and Auditing Enforcement Release No. 156 (September 28, 1987), 39 SEC Docket 399; *SEC v. Stephen E. Hann*, Litigation Release No 11578 (October 15, 1987), 39 SEC Docket 740; *SEC v. Westmore International, Inc., et al.*, Litigation Release No. 11580 (October 15, 1987), 39 SEC Docket 742; *SEC v. Kaypro Corporation*, (no release) (September 25, 1987); *In the Matter of Human Edge*, Accounting and Auditing Release No. 154 (September 25, 1987), 39 SEC Docket 390; *SEC v. George W. Atkinson, et al.*, Accounting and Auditing Enforcement Release No. 163 (September 30, 1987); 39 SEC Docket 577; *SEC v. Donald E. Brown*, Accounting and Auditing Enforcement Release No. 162 (September 30, 1987), 39 SEC Docket 575; *SEC v. Morgan Petroleum, Inc., et al.*, Litigation Release No. 11555 (September 24, 1987), 39 SEC Docket 386; *SEC v. Financial Corporation of America*, Accounting and Auditing Enforcement Release No. 153 (September 21, 1987), 39 SEC Docket 374; *SEC v. Robert J. Buckley*, Accounting and Auditing Enforcement Release No. 152 (September 9, 1987) 39 SEC Docket 247; *SEC v. Allegheny International, Inc.*, Accounting and Auditing Enforcement Release No. 151 (September 9, 1987), 39 SEC Docket 241; *In the Matter of Clayton A. Sweeney*, Securities Exchange Act Release 24888 (September 9, 1987), 39 SEC Docket 196; *In the Matter of Kraemer K. Hilton*, Securities Exchange Act Release No. 24887 (September 9, 1987), 39 SEC Docket 190; *SEC v. Henry H. McFliker, et al.*, Accounting and Auditing Enforcement Release No. 157 (September 21, 1987), 39 SEC Docket 378; *SEC v. Anthony Peter Strangie, et al.*, Litigation Release No. 11539 (September 14, 1987), 39 SEC Docket 312; *SEC v. Wallace C. Sparkman*, Litigation Release No. 11532 (September 3, 1987), 39 SEC Docket 176; *SEC v. PROS International Inc.*, Accounting and Auditing Enforcement Release No. 148, (August 26, 1987), 39 SEC Docket 73 ; *In the Matter of Pioneer Venture Corporation, et al.*, (no release) (August 27, 1987); *In the Matter of West Coast Hair Products, Inc.*, Accounting and Auditing Enforcement Release No. 147 (August 24, 1987), 39 SEC Docket 75; *In the Matter of Texas Commerce Bancshares, Inc.*, Accounting and Auditing Enforcement Release No. 146 (August 17, 1987), 38 SEC Docket 1908; *In the Matter of De Laurentiis Entertainment Group, Inc.*, Accounting and Auditing Enforcement Release No 144 (August 10, 1987), 38 SEC Docket 1804; *SEC v. Robert D. Widergren, et al.*, Accounting and Auditing Enforcement Release No. 145 (August 12, 1987), 38 SEC Docket 1801; *SEC v. Michael Clinger, et al.*, Accounting and Auditing Enforcement Release No. 142 (July 27, 1987), 38 SEC Docket 1640; *SEC v. Frederick Holtrop, et al.*, Accounting and Auditing Enforcement Release No. 149 (September 2, 1987), 39 SEC Docket 169; *SEC v. Cardillo Travel Systems, Inc., et al.*, Accounting and Auditing Enforcement Release No. 143 (July 23, 1987), 38 SEC Docket 1570; *SEC v. United Educators, Inc., et al.*, Litigation Release No. 11484 (July 9, 1987), 38 SEC Docket 1428; *SEC v. Edward V. Gallagher, et al.*, Accounting and Auditing Enforcement Release No. 139 (June 25, 1987), 38 SEC Docket 1286; *SEC v. Human Edge, et al*, Accounting and Auditing Enforcement Release No. 136 (June 19, 1987), 38 SEC Docket 1284; *In the Matter of First Chicago Corporation*, Accounting and Auditing Enforcement Release No. 134 (June 10, 1987), 38 SEC Docket 965; *SEC v.*

Earl Brown, et al., Litigation Release No. 11453 (June 8, 1987), 38 SEC Docket 1078; *SEC v. Almado, Inc.*, Accounting and Auditing Enforcement Release No. 141 (July 14, 1987), 38 SEC Docket 1468; *In the Matter of Charles W. Streicher, et al.*, Securities Exchange Act Release No. 24588 (June 12, 1987), 38 SEC Docket 1116; *SEC v. Healthdyne, Inc.*, Accounting and Auditing Enforcement Release No. 135 (June 9, 1987), 38 SEC Docket 1080; *SEC v. Windsor Holding Corp., et al.*, Accounting and Auditing Enforcement Release No. 138 (June 2, 1987), 38 SEC Docket 907; *In the Matter of Benny Aguirre, et al.*, Securities Exchange Act Release No. 24535 (June 2, 1987), 38 SEC Docket 847; *In the Matter of Leo D. Sye*, Accounting and Auditing Enforcement Release No. 137 (June 2, 1987), 38 SEC Docket 841; *SEC v. American Land Company, et al.*, Litigation Release No. 11443 (May 28, 1987), 38 SEC Docket 822; *SEC v. Robert D. Mowry, et al.*, Accounting and Auditing Enforcement Release No 133 (May 18, 1987), 38 SEC Docket 714; *In the Matter of Wespercorp*, Accounting and Auditing Enforcement Release No. 132 (May 18, 1987), 38 SEC Docket 628; *In the Matter of Thomas F. Saunders*, Securities Exchange Act Release No. 24340 (April 13, 1987), 38 SEC Docket 130; *In the Matter of Timothy R. Murphy*, Securities Exchange Act Release No. 24339 (April 13, 1987), 38 SEC Docket 127; *In the Matter of George G. Mead*, Securities Exchange Act Release No. 24338 (April 13, 1987), 38 SEC Docket 123; *In the Matter of Nicholas B. Wallace*, Securities Exchange Act Release No. 24337 (April 13, 1987), 38 SEC Docket 120; *In the Matter of Ronnie Ewton*, Securities Exchange Act Release No. 24336 (April 13, 1987), 38 SEC Docket 117; *In the Matter of William D. Sauers*, Securities Exchange Act Release No. 24331 (April 13, 1987), 38 SEC Docket 110; *SEC v. Jerald Moskowitz, et al.*, Accounting and Auditing Enforcement Release No. 131 (April 21, 1987), 38 SEC Docket 326; *SEC v. West Coast Hair Products, Inc., et al.*, Accounting and Auditing Enforcement Release No. 130 (April 10, 1987), 38 SEC Docket 208; *SEC v. Paul T. Van Winkle, et al.*, Litigation Release No. 11373 (March 19, 1987), 37 SEC Docket 1714; *In the Matter of Continental Illinois Corporation*, Accounting and Auditing Enforcement Release No 128 (February 27, 1987), 37 SEC Docket 1365; *SEC v. Electro-Catheter Corp.*, et al., Litigation Release No. 11347 (February 4, 1987), 37 SEC Docket 1084; *In the Matter of Quantum Financial Services, Inc.*, Securities Act Release No. 6686 (January 27, 1987), 37 SEC Docket 954; *SEC v. Storage Technology Corporation*, Accounting and Auditing Enforcement Release No. 125 (January 27, 1987), 37 SEC Docket 1008; *SEC v. Dorothy M. Conway, et al.*, Litigation Release No. 11339 (January 22, 1987), 37 SEC Docket 950; *In The Matter of Marsh & McLennan Companies, Inc.*, Accounting and Auditing Enforcement Release No. 124 (January 22, 1987), 37 SEC Docket 912; *In the Matter of Pre-Paid Legal Services, Inc.*, Accounting and Auditing Enforcement Release No 121 (December 22, 1986), 37 SEC Docket 528; *SEC v. CoElco, Ltd., et al.*, Litigation Release No 11315 (December 22, 1986), 37 SEC Docket 520; *SEC v. Berk and Company, Inc.*, Accounting and Auditing Enforcement Release No. 122 (December 23, 1987), 37 SEC Docket 527; *SEC v. Robert E. DeBiasse, et al.*, Accounting and Auditing Enforcement Release No. 119 (November 13, 1986), 36 SEC Docket 1784; *SEC v. Balanced Fiancial Management, Inc., et al.*, Accounting and Auditing Enforcement Release No. 117 (October 15, 1986), 36 SEC Docket 1429.

[2]Enforcement cases against accountants or accounting firms include: *In the Matter of C. O'Neal Rasmussen*, Accounting and Auditing Enforcement Release No. 161 (September 30, 1987), 39 SEC Docket 454; *In the Matter of Diane Martano Van Son*, Accounting and Auditing Enforcement Release No. 159 (September 29, 1987), 39 SEC Docket 413; *In the Matter of Myron K. Berryman*, Accounting and Auditing Enforcement Release No. 150 (September 3, 1987), 39 SEC Docket 106; *SEC v. PROS International, Inc., et al.*, Accounting and Auditing Enforcement Release No. 148 (August 26, 1987), 39 SEC Docket 73; Private Proceeding, August 4, 1987; *SEC v.*

CoElco Ltd., et al., Litigation Release No. 11315 (December 22, 1986), 37 SEC Docket 520; *In the Matter of KMG Main Hurdman*, Accounting and Auditing Enforcement Release No. 129 (March 25, 1987), 37 SEC Docket 1731; *In the Matter of Stephen Kutz*, Accounting and Auditing Enforcement Release No. 127 (January 28, 1987), 37 SEC Docket 971; *In the Matter of Marvin D. Haney*, Accounting and Auditing Enforcement Release No. 126 (January 28, 1987), 37 SEC Docket 964; *SEC v. Grant Thornton, et al.*, Accounting and Auditing Enforcement Release No. 118 (October 16, 1987), 36 SEC Docket 1443; *In the Matter of Huber, Erickson and Butler, et al.*, Accounting and Auditing Enforcement Release No. 115 (October 10, 1986), 36 SEC Docket 1352.

[3]*SEC v. Financial Corporation of America*, Accounting and Auditing Enforcement Release No. 153 (September 21, 1987), 39 SEC Docket 374.

[4]*In the Matter of Continental Illinois Corporation*, Accounting and Auditing Enforcement Release No. 128 (February 27, 1987), 37 SEC Docket 1365.

[5]*In the Matter of Texas Commerce Bancshares, Inc.*, Accounting and Auditing Enforcement Release No. 146 (August 17, 1987), 38 SEC Docket 1908.

[6]*In the Matter of De Laurentiis Entertainment Group, Inc.*, Accounting and Auditing Enforcement Release No. 144 (August 10, 1987), 38 SEC Docket 1723.

[7]*SEC v. Grant Thornton, et al.*, Accounting and Auditing Enforcement Release No. 118 (October 16, 1986), 36 SEC Docket

[8]*In the Matter of KMG Main Hurdman*, Accounting and Auditing Enforcement Release No. 129 (March 25, 1987), 37 SEC Docket 1731.

[9]Insider trading cases include: *In the Matter of David S. Brown*, Securities Exchange Act Release No. 23698 (October 9, 1986), 36 SEC Docket 1312; *In the Matter of Ivan F. Boesky*, Securities Exchange Act Release No. 23802 (November 14, 1986), 37 SEC Docket 2; *In the Matter of Randall D. Cecola*, Securities Exchange Act Release No. 23919 (December 22, 1986), 37 SEC Docket 464; *In the Matter of Robert Salsbury*, Securities Exchange Act Release No. 24019 (January 21, 1987), 37 SEC Docket 892; *In the Matter of Martin A. Siegel*, Securities Exchange Act Release No. 24098 (February 13, 1987), 37 SEC Docket 1185; *In the Matter of Bernard Meir*, Securities Exchange Act Release No. 24499 (March 13, 1987), 38 SEC Docket 768; *In the Matter of Robert D'Elia*, Securities Exchange Act Release No. 24295 (April 2, 1987), 37 SEC Docket 1869; *In the Matter of Kidder, Peabody & Co., Inc.*, Securities Exchange Act Release No. 24543 (June 4, 1987), 38 SEC Docket 857; *SEC v. James F. Flaherty, Jr.*, Litigation Release No. 11254 (October 14, 1986), 36 SEC Docket 1433; *SEC v. David S. Brown*, Litigation Release No. 11245 (October 9, 1986), 36 SEC Docket 1347; *SEC v. Ilan K. Reich*, Litigation Release No. 11246 (October 9, 1986), 36 SEC Docket 1349; *SEC v. Alfred E. Kopfmann, II*, Litigation Release No. 11276 (October 28, 1986), 36 SEC Docket 1610; *SEC v. Ivan F. Boesky*, Litigation Release No. 11288 (November 14, 1986), 37 SEC Docket 78; *SEC v. Randall D. Cecola*, Litigation Release No. 11313 (December 22, 1986), 37 SEC Docket 518; *SEC v. Alfred Elliott*, Litigation Release No. 11335 (December 30, 1986), 37 SEC Docket 698; *SEC v. Anthony A. DePalma*, Litigation Release No. 11333 (December 30, 1986), 37 SEC Docket 696; *SEC v. Melvin N. Pomerantz*, Litigation Release No. 11305 (December 11, 1986), 37 SEC Docket 319; *SEC v. Michael N. David*, Litigation Release No. 11334 (December 30, 1986), 37 SEC Docket 697; *SEC v. Samuel M. Aksler, et al.*, Litigation Release No. 11325 (December 23, 1986), 37 SEC Docket 756; *SEC v. Martin A. Siegel*, Litigation Release No. 11354 (February 13, 1987), 37 SEC Docket 1276; *SEC v. Nahum Vaskevitch*, Litigation Release No. 11365 (February 11, 1987), 37 SEC Docket 1606; *SEC v. Israel G. Grossman, et al.*, Litigation Release No. 11359 (February 17, 1987), 37 SEC Docket 1281; *SEC v. Robert Salsbury*, (January 7, 1987), (no release); *SEC v. William Adams, et al.*, Litigation Release No. 11439 (May 20, 1987), 38 SEC Docket 707; *SEC v. Hendrix R. Bull,*

Litigation Release No. 11395 (April 8, 1987), 38 SEC Docket 93; *SEC v. John Naylor Clark, III, et al.*, Litigation Release No. 11440 (May 21, 1987), 38 SEC Docket 708; *SEC v. Kidder, Peabody & Co., Inc.*, Litigation Release No. 11452 (June 4, 1987), 38 SEC Docket 914; *SEC v. Russell S. Douglas*, Litigation Release No. 11479 (June 29, 1987), 38 SEC Docket 1422; *SEC v. Marvin H. Ingram*, Litigation Release No. 11482 (July 7, 1987), 38 SEC Docket 1426; *SEC v. Robert D'Elia, et al.*, Litigation Release No. 11499 (July 28, 1987), 38 SEC Docket 1638; *SEC v. Ira Michael Patton, et al.*, Litigation Release No. 11561 (September 28,1987), 39 SEC Docket 568; *SEC v. Dennis Gillette*, Litigation Release No. 11502 (July 27, 1987) 38 SEC Docket 1639; *SEC v. Albert Tate, et al.*, Litigation Release No. 11485 (July 14, 1987), 38 SEC Docket 1465; *SEC v. Armin Kaufman*, Litigation Release No. 11529 (September 3, 1987), 39 SEC Docket 173; *SEC v. John M. Cochran*, Securities Exchange Act Release No. 11572 (October 9, 1987), 39 SEC Docket 733; *SEC v. Charles R. Davis, et al.*, (September 17, 1987), (no release), 579; *SEC v. Texscan Corporation et al.*, Accounting and Auditing Enforcement Release No. 164 (September 30, 1987), 39 SEC Docket 579; *SEC v. George W. Atkinson, et al.*, Accounting and Auditing Enforcement Release No. 163 (September 30, 1987), 39 SEC Docket 577; *SEC v. Robert D. Widergren, et al.*, Accounting and Auditing Enforcement Release No. 145 (August 12, 1987), 38 SEC Docket 1801; *SEC v. Michael Clinger, et al.*, Accounting and Auditing Enforcement Release No. 142 (July 27, 1987), 38 SEC Docket 1640; *SEC v. Cardillo Travel Systems, Inc., et al.*, Litigation Release No. 11492 (July 23, 1987), 38 SEC Docket 1570; *SEC v. Electro-Catheter Corporation, et al.*, Litigation Release No. 11347 (February 4, 1987), 37 SEC Docket 78.

[10]*SEC v. Ivan F. Boesky*, Litigation Release No. 11288 (November 14, 1986), 37 SEC Docket 78.

[11]*In the Matter of Ivan F. Boesky*, Securities Exchange Act Release No. 23802 (November 14, 1986), 37 SEC Docket 2.

[12]*SEC v. Martin A. Siegel*, Litigation Release No. 11354 (February 13, 1987), 37 SEC Docket 1276.

[13]*In the Matter of Martin A. Siegel*, Securities Exchange Act Release No. 24098 (February 13, 1987), 37 SEC Docket 1185.

[14]*SEC v. Kidder, Peabody & Co., Inc.*, Litigation Release No. 11452 (June 4, 1987), 38 SEC Docket 914.

[15]*In the Matter of Kidder, Peabody & Co., Inc.*, Securities Exchange Act Release No. 24543 (June 4, 1987), 38 SEC Docket 857.

[16]*SEC v. Boyd L. Jefferies, et al.*, Litigation Release No. 11370 (March 19, 1987), 37 SEC Docket 1707.

[17]*In the Matter of Jefferies & Co., Inc., et al.*, Securities Exchange Act Release No. 24231 (March 19, 1987), 37 SEC Docket 1633.

[18]*SEC v. Michael N. David*, Litigation Release No. 11334 (Decemeber 10, 1986), 37 SEC Docket 697.

[19]*SEC v. Israel G. Grossman, et al.*, Litigation Release No. 11359 (February 17, 1987), 37 SEC Docket 1281.

[20]*SEC v. Nahum Vaskevitch*, Litigation Release No. 11365 (March 11, 1987), 37 SEC Docket 1606.

[21]*In the Matter of Shearson Lehman Brothers, Inc.*, Securities Exchange Act Release No. 24595 (June 15, 1987), 38 SEC Docket 1125.

[22]*In the Matter of Dean Witter Reynolds, Inc.*, Securities Exchange Act Release No. 24143 (February 27, 1987), 37 SEC Docket.

[23]*In the Matter of Advest Inc.*, Litigation Release No. 24072 (February 9, 1987), 37 SEC Docket 1101.

[24]*SEC v. Steven A. Keyser*, Litigation Release No. 11357 (January 30, 1987), 37 SEC Docket 1279.

[25]*In the Matter of Gin Enterprises, Inc.*, Securities Act Release No. 6716 (June 2, 1987), 38 SEC Docket 834.

[26]*In the Matter of Myron E. Berryman*, Accounting and Auditing Enforcement Release No. 150 (September 3, 1987), 39 SEC Docket 107.

[27]*SEC v. Charles Phillip Elliott, et al.*, Litigation Release No. 11408 (April 20, 1987), 38 SEC Docket 725.

[28]*SEC v. Andrew Nanos, et al.*, Litigation Release No. 11402 (April 15, 1987), 38 SEC Docket 212.

[29]*In the Matter of Allied Stores Corporation, et al.*, Securities Exchange Act Release No. 24727 (June 29, 1987), 38 SEC Docket 1525.

[30]Release No. 33-6714 (May 27, 1987), 38 SEC Docket 718.

[31]Release No. 34-24976 (October 1, 1987), 39 SEC Docket 486.

[32]Release No. 34-24296 (April 3, 1987), 52 FR 11458 (April 9, 1987).

[33]Release No. 34-24552 (June 4, 1987), 38 SEC Docket 874.

[34]Release No. 34-24514 (June 9, 1987), 38 SEC Docket 730.

[35] Release No. 34-24274 (March 27, 1987), 37 SEC Docket 1847 and Release No. 34-24607 (June 18, 1987), 38 SEC Docket 1149.

[36]Release No. 33-6682 (December 18, 1986), 37 SEC Docket 535.

[37]Release No. 33-6727 (July 31, 1987), 38 SEC Docket 1644.

[38]Release No. 33-6683 (January 16, 1987), 37 SEC Docket 858.

[39]*Id.*

[40]Release No. 33-6726 (July 30, 1987), 38 SEC Docket 1588.

[41]Release No. 33-6711 (April 17, 1987), 38 SEC Docket 219.

[42]Item 303 of Regulation S-K, 17 CFR 229.303.

[43]Release No. 34-23407 (July 8, 1986), 36 SEC Docket 90.

[44]Release No. 33-6740 (September 22, 1987), 39 SEC Docket 184.

[45]Financial Reporting Release No. 27 (November 25, 1986), 37 SEC Docket 90.

[46]Financial Reporting Release No. 30 (August 7, 1987), 38 SEC Docket 1714.

[47]Securities Act Release No. 6711 (April 24, 1987), 38 SEC Docket 219.

[48]Financial Reporting Release No. 28 (December 1, 1986), 37 SEC Docket 194.

[49]Securities Act Release No. 6695 (April 1, 1987), 37 SEC Docket 1825.

[50]Securities Act Release No. 6719 (June 18, 1987), 38 SEC Docket 1097.

[51]Staff Accounting Bulletin No. 65 (November 5, 1986), 36 SEC Docket 1705 (Risk Sharing in Poolings of Interest), Staff Accounting Bulletin No. 66 (November 25, 1986), 37 SEC Docket 192 (Disclosures by Bank Holding Companies regarding Loans to Countries Experiencing Liquidity Problems), Staff Accounting Bulletin No. 67 (December 8, 1986), 37 SEC Docket 320 (Income Statement Presentation of Restructuring Charges), Staff Accounting Bulletin No. 68 (May 4, 1987), 38 SEC Docket 523 (Accounting for Increasing Rate Preferred Stock), Staff Accounting Bulletin No. 69. (May 8, 1987), 38 SEC Docket 610 (Disclosure of Lending and Deposit Activities), Staff Accounting Bulletin No. 70 (June 5, 1987), 38 SEC Docket 1091 (Accounting for Non-Recourse Debt Collateralized by Lease Receivables and/or Leased Assets), and Staff Accounting Bulletin No. 71 (August 12, 1987), 38 SEC Docket 1805 (Financial Statements of Properties Securing Mortgage Loans).

[52]Proposed Statement of Financial Accounting Standards, *Disclosures about Financial Instruments.*

[53]Statement of Financial Accounting Standards No. 94, *Consolidation of all Majority-owned Subsidiaries.*

[54]Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows.*

[55]Statement of Financial Accounting Standards No. 96, *Accounting for Income Taxes.*

[56]Statement of Financial Accounting Standards No. 90, *Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs,* and Statement of Financial Accounting Standards No. 92, *Regulated Enterprises—Accounting for Phase—in Plans.*

[57]FASB Technical Bulletin No. 86-1, *Accounting for Certain Effects of the Tax Reform Act of 1986.*

[58]FASB Technical Bulletin No. 86-2, Accounting for an Interest in the Residual *Value of a Leased Asset.*

[59]FASB Technical Bulletin No. [illegible], *Accounting for a Change in Method of Accounting for Certain Postreti[illegible]ent Benefits.*

[60]FASB Technical Bulletin No. [illegible], *Accounting for Mortgage Servicing Fees and Rights.*

[61]*Report of the National Commission on Fraudulent Financial Reporting* (October 1987).

[62]Proposed Statements on Auditing Standards, *The Auditor's Responsibility to Detect and Report Errors and Irregularities, Illegal Acts by Clients, The Auditor's Consideration of an Entity's Ability to Continue in Existence, The Auditor's Responsibility for Assessing Control Risk, Analytical Procedures. The Communication of Control-Structure Related Matters Noted in an Audit, Communication with Audit Committees or Others With Equivalent Authority and Responsibility, The Auditor's Standard Report* and *Auditing Accounting Estimates* and a proposed Statement on Standards for Attestation Engagements, *Examination of Management's Discussion and Analysis,* respectively.

[63]Public Oversight Board, Annual Report 1986—1987, Page 6.

[64]Securities Exchange Act Release Nos. 24406 (April 29, 1987), 52 FR 17495 and 24407 (April 29, 1987), 52 FR 17349.

[65]Letter from Brandon Becker, Associate Director, Division of Market Regulation, to Lloyd H. Feller, Esq., Morgan, Lewis & Bockius, counsel for Jefferies & Co., Inc., dated July 28, 1987.

[66]Securities Exchange Act Release No. 24046 (February 2, 1987), 37 SEC Docket 1024.

[67]Securities Exchange Act Release No. 24689 (July 9, 1987), 38 SEC Docket 1379.

[68]Securities Exchange Act Release No. 24513 (May 26, 1987), 38 SEC Docket 782.

[69]Securities Exchange Act Release No. 24781 (August 6, 1987), 38 SEC Docket 1671.

[70]See Securities Exchange Act Release No. 24926 (September 17, 1987), 39 SEC Docket 271.

[71]Report of the staff of the U.S. Securities and Exchange Commission to the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Energy and Commerce, July 27, 1987.

[72]*Letter regarding International Stock Exchange of the United Kingdom and the Republic of Ireland Limited* (letter dated September 29, 1987).

[73]*Letter regarding Rhone-Poulenc S.A.* (letter dated March 13, 1987); *Letter regarding Compania Telefonica Nacional de Espana, S.A.* (letter dated June 11, 1987); *Letter regarding Banco Central, S.A.*; (letter dated June 30, 1987); *Letter regarding Banco de Santander, S.A.* (letter dated July 28, 1987).

[74]*Letter regarding Phillips N.V.,* Securities Exchange Act Release No. 24486 (May 12, 1987), 38 SEC Docket 654; and *Letter regarding Barclays PLC,* Securities Exchange Act Release No. 24487 (May 19, 1987), 38 SEC Docket 661.

[75]See Letter from Jonathan Kallman, Assistant Director, Division of Market Regulation, to Karen Saperstein, Associate Counsel, International Securities Clearing Corporation (September 10, 1986).

[76]See Letter from Jonathan Kallman, Assistant Director, Division of Market Regulation, to Jeffrey E. Lewis, Associate Counsel, Midwest Clearing Corporation/Midwest Securities Trust Company (July 22, 1987).

[77]Securities Exchange Act Release No. 24725 (July 21, 1987), 38 SEC Docket 1512.

[78]Securities Exchange Act Release No. 24832 (August 21, 1987), 38 SEC Docket 1896.

[79]Securities Exchange Act Release No. 24895 (September 9, 1987), 39 SEC Docket 211.

[80]Securities Exchange Act Release No. 24831 (August 21, 1987), 39 SEC Docket 3 (Amex rule change); Securities Exchange Act Release No. 24832 (August 21, 1987), 39 SEC Docket 7 (OCC rule change).

[81]Securities Exchange Act Release No. 24889 (September 9, 1987), 39 SEC Docket 202.

[82]Securities Exchange Act Release No. 23795 (November 12, 1986), 36 SEC Docket 1751.

[83]Securities Exchange Act Release No. 25052 (October 21, 1987), 39 SEC Docket 755.

[84]Securities Exchange Act Release No. 24555 (June 5, 1987), 38 SEC Docket 931 (Amex rule change); Securities Exchange Act Release No. 24680 (July 7, 1987), 38 SEC Docket 1367 (Phlx rule change); Securities Exchange Act Release No. 24687 (July 8, 1987), 38 SEC Docket 1370 (NYSE rule change).

[85]Letter from Jonathan G. Katz, Secretary, to Dr. Paula Tosini, Director, Division of Economic Analysis, CFTC, February 12, 1987.

[86]Letter from Jonathan G. Katz, Secretary, to Dr. Paula Tosini, Director, Division of Economic Analysis, CFTC, August 24, 1987.

[87]Letter from Jonathan G. Katz, Secretary, to Dr. Paula Tosini, Director, Division of Economic Analysis, CFTC, August 24, 1987.

[88]Letter from Richard G. Ketchum, Director, Division of Market Regulation to Kenneth M. Raisler, General Counsel, CFTC, November 25, 1986.

[89]Securities Exchange Act Release No. 24209, (March 12, 1987), 37 SEC Docket 1545.

[90]See footnote 70, *supra*.

[91]Securities Exchange Act Release No. 25040 (October 16, 1987), 39 SEC Docket 746.

[92]Securities Exchange Act Release No. 24917 (September 11, 1987), 39 SEC Docket 263.

[93]Securities Exchange Act Release No. 24613 (June 18, 1987), 38 SEC Docket 1158.

[94]Securities Exchange Act Release No. 24976 (October 1, 1987), 39 SEC Docket 486.

[95]Securities Exchange Act Release No. 24485 (May 20, 1987), 38 SEC Docket 614.

[96]H.R. 2557. 100th Cong., 1st Sess. (May 28, 1987).

[97]S. 1175, 100th Cong., 1st Sess. (May 8, 1987).

[98]50 FR 28385 (July 12, 1985).

[99]804 F.2d 739 (D.C. Cir. 1986).

[100]Securities Exchange Act Release No. 24368 (April 21, 1987), 52 FR 15575.

[101]Securities Exchange Act Release No. 24553 (June 11, 1987), 38 SEC Docket 923.

[102]Securities Exchange Act Release No. 24778 (August 6, 1987), 38 SEC Docket 1665.

[103]Letter to Michael Minikes, Co-Chairman NYSE Sponsored Rule 15c3-3 Committee, September 8, 1987.

[104]Securities Exchange Act Release No. 23856 (December 3, 1986), 37 SEC Docket 198.

[105]A tenth exchange technically still registered with the Commission is the Intermountain Stock Exchange (ISE). The Exchange is now inactive and conducts no trading. As part of an agreement with the Commission, the Commodity Exchange purchased the registration statement of ISE and must decide by January 1988, whether it intends to reactivate trading at a later time. No trading could commence, however, without further Commission approval.

[106]Securities Exchange Act Release No. 24623 (June 22, 1987), 52 FR 23665.

[107]File No. SR-NYSE-86-17, Securities Exchange Act Release No. 23724 (October 17, 1986), 51 FR 37529. In December, the Commission had also held hearings on the NYSE proposal and development of a uniform voting rights standard.

[108]Securities Exchange Act Release No. 24429 (May 6, 1987), 38 SEC Doc. 432.

[109]Securities Exchange Act Release No. 24634 (June 23, 1987), 52 FR 24230.

[110]In general, an approved person is an individual or entity that owns or controls a member organization, or is engaged in the securities business and is either controlled by or under common control with a member organization.

[111]File Nos. SR-Amex-85-I and SR NYSE-85-25, Securities Exchange Act Release No. 23768 (November 3, 1986), 51 FR 41183.

[112]File No. Amex-84-32, Securities Exchange Act Release No. 24021 (January 21, 1987), 52 FR 3370.

[113]File No. SR-NYSE-85-I, Securities Exchange Act Release No. 24505 (May 22, 1987), 52 FR 20484.

[114]Securities Exchange Act Release No. 24411 (April 29, 1987), 52 FR 17870.

[115]File No. SR-CSE-86-6, Securities Exchange Act Release No. 24090 (February 12, 1987), 52 FR 5225.

[116]Securities Exchange Act Release No. 24979 (October 2, 1987), 39 SEC Docket 587.

[117]Securities Exchange Act Release No. 24749 (July 27, 1987), 38 SEC Docket 1601.

[118]Securities Exchange Act Release No. 24718 (July 20, 1987), 38 SEC Docket 1504.

[119]Securities Exchange Act Release No. 2457 (June 5, 1987), 38 SEC Docket 934.

[120]Securities Exchange Act Release No. 24633 (June 23, 1987), 38 SEC Docket 1247.

[121]Securities Exchange Act Release Nos. 22481 (September 30, 1985), 34 SEC Docket 254 (NSCC); 24536 (June 2, 1987), 38 SEC Docket 852 (MCC); 24171 (March 4, 1987), 37 SEC Docket 1405 (OCC); 24897 (September 10, 1987), 39 SEC Docket 212 (SCCP).

[122]Securities Exchange Act Release Nos. 24161 (March 2, 1987), 37 SEC Docket 1394 (BSE); 24819 (August 19, 1987), 38 SEC Docket 1883 (MSE); 24161 (March 2, 1987), 38 SEC Docket 1394 (NYSE).

[123]Securities Exchange Act Release No. 24365 (April 17, 1987), 38 SEC Docket 230.

[124]Securities Exchange Act Release No. 24024 (February 10, 1987), 37 SEC Docket 966.

[125]See Letter to Members of the Securities Industry Conference on Arbitration from Richard G. Ketchum, Director (September 10, 1987).

[126]The staff also completed the processing of 8 applications that had been pending at the end of the 1986 fiscal year.

[127]Release No. 33-6693 (March 9, 1987), 37 SEC Docket 1476.

[128]Release No. IC-15611 (March 9, 1987), 37 SEC Docket 1587.

[129]Release No. 33-61718 (June 12, 1987), 38 SEC Docket 1095.

[130]Release No. 33-6719 (June 18, 1987), 38 SEC Docket 1097.

[131]Release No. 33-6730 (Aug. 18, 1987), 38 SEC Docket 1814.

[132]Release No. IC-15410 (Nov. 13, 1986), 36 SEC Docket 1778.

[133]Release No. 1A-1083 (Sept. 25, 1987), 39 SEC Docket 545.

[134]Holding Company Act Release No. 24329 (February 27, 1987), 37 SEC Docket 1428.

[135]Holding Company Act Release No. 24458 (September 10, 1987), 39 SEC Docket 222.

[136]Holding Company Act Release No. 24415 (June 18, 1987), 38 SEC Docket 1187.

[137]Holding Company Act Release No. 24267 (December 18, 1986), 37 SEC Docket 387.

[138]*SEC v. Burns*, 816 F.2d 471 (9th Cir. 1987).

[139]*SEC v. Wall Street Publishing Institute, Inc.*, No. 86-5646 (D.C. Cir.).

[140]*SEC v. The American Board of Trade, Inc.*, No. 86-6210 (2d Cir., Sept. 28, 1987).

[141]*SEC v. The American Board of Trade, Inc.*, 751 F.2d 529 (2d Cir. 1984).

[142]*SEC v. The American Board of Trade, Inc.*, 798 F.2d 45 (2d Cir. 1986).

[143]*SEC v. Charles Byers*, 815 F.2d 1135 (3d Cir. 1987).

[144]*SEC v. Zoe Products, Inc.*, 807 F.2d 178 (9th Cir. 1986).

[145]*C.E. Carlson, Inc. and Charles E. Carlson v. SEC*, No. 86-2637 (10th Cir.).

[146]*Lowell H. Listrom & Co. v. SEC*, 803 F.2d 938 (8th Cir. 1986).

[147]*Svalberg v. SEC*, No. 86-1674 (D.C. Cir.); *Lippitt v. SEC*, No. 86-1708 (D.C. Cir.).

[148]*Butcher & Singer, Inc. and Thomas A. Grey v. SEC*, No. 87-3065 (3d Cir. Oct. 15, 1987) (without opinion).

[149]*Kane v. SEC*, No. 87-1080 (8th Cir.).

[150]*Kuznetz v. SEC*, No. 86-1508 (D.C. Cir. Sept. 21, 1987).

[151]*Dirks v. SEC*, (1986-1987) Fed. Sec. L. Rep. (CCH par. 92,936 (D.C. Cir. Oct. 10, 1986).

[152]*Blinder, Robinson & Co. and Meyer Blinder v. SEC*, Nos. 87-1080, 1086 (D.C. Cir.).

[153]Petitioners also raise a constitutional challenge to the Commission's enforcement powers. That aspect of the case is discussed below under the heading "Constitutional Challenges to Commission Enforcement Authority."

[154]*Pagel, Inc. v. SEC*, 803 F.2d 942 (8th Cir. 1986).

[155]*Rutherford v. SEC*, 87-7114 (9th Cir.).

[156]*Newell v. SEC*, 812 F.2d 1259 (9th Cir. 1987).

[157]*SEC v. Thomas*, No. 86-C-0313G (D. Utah 1986).

[158]*SEC v. Warner*, No. 86-6742-CIV (S.D. Fla. 1987).

[159]The court relied principally upon *Humphrey's Executor v. United States*, 295 U.S. 602 (1935).

[160]*The American Board of Trade, Inc. v. SEC*, No. 86 Civ 3166(WK) (S.D.N.Y. 1986).

[161]*SEC v. Blinder, Robinson & Co.*, No. 80-M-1125 (D. Colo. 1986).

[162]*SEC v. Blinder, Robinson & Co.*, No. 86-2319 (10th Cir.).

[163]*SEC v. Blinder, Robinson & Co.*, Nos. 87-1080, 87-1086 (D.C. Cir.) (discussed *supra*).

[164]These same constitutional issues have been raised in cases involving the Federal Trade Commission. *See Ticor Title Ins. Co. v. FTC*, No. 85-3089 (D.D.C. Jan. 3, 1986), *aff'd*, (D.C. Cir. March 24, 1987); *Hospital Corp. of America v. FTC*, 807 F.2d 1381 (7th Cir. 1986), *cert. denied*, 107 S. Ct. 1975 (1987); *FTC v. American Nat'l. Cellular, Inc.*, 810 F.2d 1511 (9th Cir. 1987). The decisions in the first two cases did not reach the constitutional challenge; in the last, the United States Court of Appeals for the Ninth Circuit upheld the Federal Trade Commission's power to bring enforcement actions as consistent with *Humphrey's Executor*, 295 U.S. 602 (1935). The issue was also raised but dismissed as premature in *FTC v. Monahan*, 1987-1 Trade Cas. (CCH) 67,540 (D. Mass. April 13, 1987), *appeal pending*, No. 87-1392 (1st Cir.).

[165]*Shearson/American Express v. McMahon*, 107 S. Ct. 2332 (June 8, 1987).

[166]*Wilko v. Swan*, 346 U.S. 427 (1953).

[167]*Pinter v. Dahl*, No. 86-805 (S. Ct.).

[168]*Ettinger v. Merrill Lynch*, No. 87-1045 (3d Cir.).

[169]*Hollinger v. Titan Capital Corp.*, No. 87-3837 (9th Cir.).

[170]*AZL Resources, Inc. v. Margaret Hall Foundation, Inc., cert. denied*, 107 S. Ct. 2469 (1987).

[171]*Brauer v. Options Clearing Corp.*, 807 F.2d 297 (2d Cir. 1986), *cert. denied*, 56 U.S.L.W. (Oct. 5, 1987).

[172]*Holloway v. Peat, Marwick, Mitchell & Co.*, Nos. 87-1486, 1490 (10th Cir.).

[173]In *Marine Bank v. Weaver*, 455 U.S. 557 (1982), the Supreme Court held that certificates of deposit issued by federally- regulated insured banks were exempt from the antifraud provisions of the federal securities laws.

[174]*Sanderson v. Roethermund*, No. 85-9527 (EW) (S.D.N.Y.).

[175]See *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946).

[176]*Busch v. Carpenter*, No. 84-2501 (10th Cir. Aug. 18, 1987).

[177]*Societe Nationale Industrielle Aerospatiale v. United States District Court for the Southern District of Iowa*, 107 S. Ct. 2542 (1987).

[178]*United States v. Carpenter*, 791 F.2d 1024 (2d Cir.), *cert. granted*, 107 S. Ct. 666 (1986).

[179]*SEC v. Certain Unknown Purchasers of the Common Stock and Call Options of Santa Fe International Corp.*, 817 F.2d 1018 (2d Cir. 1987).

[180]*SEC v. Tome*, Nos. 86-6192(L), 86-6194, 86-6196 (2d Cir.).

[181]*CTS Corp. v. Dynamics Corp.*, 107 S. Ct. 1637 (1987).

[182]*Levinson v. Basic, Inc.*, 786 F.2d 741 (6th Cir. 1986), *cert. granted*, 107 S. Ct. 1284 (1987).

[183]*Newmont Mining Corp. v. Pickens, et al.*, No. 87-2712 (9th Cir. Nov. 6, 1987).

[184]*Texaco, Inc. v. Pennzoil Co.*, No. C-6432 (S. Ct. Tex. November 2, 1987).

[185]*Occidental Petroleum Corp. v. SEC*, 662 F. Supp. 496 (D.D.C. 1987), *appeal pending*, No. 87-5279 (D.C. Cir.).

[186]*Sprecher v. Fischer*, No. 87-6038 (2d Cir. June 1, 1987).

[187]*Panaro v. von Stein*, No. 87-1791 (S.D.N.Y.).

[188]*Sprecher v. Fischer*, No. 87-6038 (2d Cir. June 1, 1987).

[189]*Kendrick v. Zanides*, 609 F. Supp 1162 (N.D.C. 1985), *affirmed*, 796 F.2d 480 (9th Cir. 1986).

[190]*In re The LTV Corporation*, Nos. 86-B-11270 to 11324, 86-B-11402 and 86-B-11464 (BRL) (Bankr. S.D.N.Y. Nov. 17, 1986); *In re Towle Manufacturing Co.*, Nos. 86 Bkcy. 10497 to 10505 (Bankr. S.D.N.Y. Dec. 10, 1986); *In re Johns-Manville Corp., (Albero v. Manville Corp.)*, Nos. 82-B-11656-76 (Bankr. S.D.N.Y. Oct. 9, 1986), *aff'd* 68 B.R. 155 (S.D.N.Y. 1986), *dismissed*, No. 85-5068 (2d Cir. 1986).

[191]Nos. 82 B 11656-76 (Bankr. S.D.N.Y. Oct. 9, 1986), *aff'd*, 68 B.R. 155 (S.D.N.Y. 1986), *dismissed*, No. 86-5068 (2d Cir. 1986).

[192]Nos. 86-B-11270 to 11324, 86-B-11402 and 86-B-11464 (BRL) (Bankr. S.D.N.Y. Nov. 17, 1986).

[193]Nos. 86 Bkcy. 10497 to 10505 (Bankr. S.D.N.Y. Dec. 10, 1986).

[194]No. 84-BX-1609 (Bankr. D. Md.).

[195]53 B.R. 888 (Bankr. W.D. Okla. 1985), *rev'd and remanded*, No. 86-1250 (W.D. Okla. June 30, 1987), *appeal pending*, No. 87-2145 (10th Cir.).

[196]48 B.R. 778 (Bankr. D. Colo.), *aff'd*, No. 85-2-703 (D. Colo. Oct. 28, 1985), *aff'd*, 817 F.2d 625 (10th Cir. 1987), *reh'g granted*, No. 85-2783 (10th Cir. June 23, 1987).

[197]*In re Standard Metals*, 817 F.2d 625 (10th Cir. 1987), *reh'g granted on other grounds*, No. 85-2283 (June 23, 1987).

[198]*In re American Reserve Corporation (Huddleston v. Holland)*, 80 B 4786 (Bankr. N.D. Ill. April 12, 1985), *rev'd*, 71 B.R. 32 (N.D. Ill 1987), *appeal pending*, No. 87-8014 (7th Cir.).

[199]*In re The Charter Company, et al. (The Certified Class in the Charter Securities Litigation and Certain Individual Members Thereof v. The Charter Co.)*, Bankr. Nos. 84-289-BK-J-GP through 84-332-BK-J-GP and 851033-BK-J-GP (Bankr. M.D. Fla. Nov. 28, 1986), *appeal pending*, No. 86-1079-Civ-J-16 (M.D. Fla.).

[200]Case No. 4-86-1507 (Bankr. D. Minn.).

[201]*In re Energy Exchange Corporation and Vulcan Energy Corporation*, consolidated case No. 85-010-893-A (Bankr. W.D. Okla. Dec. 9, 1986).

[202]*In re Storage Technology Corporation*, No. 84-B-5377-J (Bankr. D. Colo.).

[203]Nos. 86-6124, etc. (S.D.N.Y. July 17, 1987).

APPENDIX

THE SECURITIES INDUSTRY

Revenues, Expenses, and Selected Balance Sheet Items

Broker-dealers that are registered with the Commission produced revenues of $64.9 billion in calendar year 1986, 29 percent above the 1985 level. Almost 70 percent of this increase in revenues stemmed from the growth of revenues from securities brokerage, principal transactions and underwriting. The "all other revenues," which include interest income from securities purchased under agreements to resell and fees from handling private placements, mergers and acquisitions, accounted for the remaining 30 percent increase in revenues.

Securities commission income increased $3.0 billion or 27 percent, while revenues from mutual fund sales rose 65 percent.

Trading gains on firms' securities accounts increased $3.7 billion, or 25 percent, and represented 28 percent of total revenues in 1986. Profits from underwriting increased $1.8 billion, 36 percent, and stabilized as a percent of total revenues at ten percent.

Pre-tax income increased 26 percent from the preceding year to $8.3 billion, as expenses grew by $13.0 billion (30 percent) to $56.6 billion in 1986.

Assets rose by $68.2 billion to $524.8 billion and liabilities grew $61.7 billion to $493.8 billion. Ownership equity increased $6.5 billion during 1986 to $31.0 billion at year's end.

Table 1

UNCONSOLIDATED FINANCIAL INFORMATION FOR BROKER-DEALERS
1982-1986

(Millions of Dollars)

	1982	1983	1984	1985r	1986p
Revenues					
1. Securities Commissions	$ 7,370	$ 10,493	$ 9,294	$ 11,087	$ 14,090
2. Gain (Loss) in Trading	7,668	8,690	9,644	12,603	16,442
3. Gain (Loss) in Investments	867	1,178	1,126	2,014	1,879
4. Profit (Loss) from Underwriting and Selling Groups	2,688	4,097	3,253	4,992	6,753
5. Revenue from Sale of Investment Company Securities	629	1,494	1,453	2,750	4,544
6. All Other Revenues	9,579	11,191	14,903	16,822	21,241
7. Total Revenues	$ 28,801	$ 37,143	$ 39,673	$ 50,268	$ 64,949
Expenses					
8. All Employee Compensation and Benefits (Except Registered Representatives' Compensation)[1]	$ 4,714	$ 6,442	$ 6,777	$ 8,198	$ 11,105
9. Commissions and Clearance Paid to Other Brokers	1,299	1,818	1,912	2,373	3,045
10. Interest Expense	6,452	6,914	10,701	11,601	14,403
11. Regulatory Fees and Expenses	149	202	227	347	422
12. Compensation to Partners and Voting Stockholder Officers	1,179	1,555	1,509	1,791	2,263
13. All Other Expenses (Including Registered Representatives' Compensation)[1]	10,935	14,979	15,695	19,339	25,389
14. Total Expenses	$ 24,728	$ 31,910	$ 36,821	$ 43,649	$ 56,627
15. Pre-Tax Income	$ 4,073	$ 5,233	$ 2,852	$ 6,619	$ 8,322
Assets, Liabilities and Capital					
16. Total Assets	$201,275	$252,270	$314,121	$456,822	$524,815
17. Liabilities:					
a. Total Liabilities (Excluding Subordinated Debt)	186,028	232,551	290,661	425,452	482,775
b. Subordinated Debt	2,306	3,083	4,805	6,640	11,038
c. Total Liabilities (17a + 17b)	188,334	235,634	295,466	432,092	493,813
18. Ownership Equity	12,941	16,636	18,655	24,530	31,002
19. Total Liabilities and Ownership Equity	$201,275	$252,270	$314,121	$456,622	$524,815
Number of Firms	6,165	7,429	8,298	8,768	9,328

Figures may not sum due to rounding.
p = preliminary
r = revised

[1] Registered representatives' compensation is included in "All Other Expenses" because it is not reported separately on Part IIA of the FOCUS Report.

Source: FOCUS Report

Table 2

UNCONSOLIDATED ANNUAL REVENUES AND EXPENSES FOR BROKER-DEALERS DOING A PUBLIC BUSINESS[1]

1982-1986

(Millions of Dollars)

	1982	1983	1984	1985r	1986p
Revenue					
1. Securities Commissions	$ 7,129	$ 9,829	$ 8,824	$10,420	$13,546
2. Realized and Unrealized Gains or Losses in Trading and Investment Accounts	8,138	9,106	9,935	13,675	16,873
3. Commodities Revenues	731	951	799	1,148	1,073
4. Profits or Losses From Underwriting and Selling Groups	2,673	3,990	3,207	4,924	6,883
5. Revenues From Sale of Investment Company Securities	625	1,474	1,400	2,677	4,464
6. Margin Interest	2,080	2,150	2,924	2,722	3,001
7. All Other Revenues	6,536	7,405	10,705	12,329	16,581
8. Total Revenues	$27,892	$34,905	$37,794	$47,895	$62,220
Expenses					
9. Salaries and Other Employment Costs for General Partners and Voting Stockholder Officers	$ 1,095	$ 1,389	$ 1,382	$ 1,652	$ 2,075
10. All Other Employee Compensation and Benefits (Except Registered Representatives' Compensation)[2]	4,592	6,186	6,527	7,844	10,784
11. Commissions and Clearance Paid to Others	1,231	1,615	1,777	2,168	2,788
12. Interest Expense	6,389	6,513	10,331	11,339	14,049
13. Regulatory Fees and Expenses	137	170	204	319	393
14. All Other Expenses[2]	10,722	14,390	15,168	18,843	24,651
15. Total Expenses	$24,166	$30,243	$35,389	$41,966	$54,741
Pre-Tax Income					
16. Pre-Tax Income	$ 3,726	$ 4,662	$ 2,405	$ 5,929	$ 7,480
Number of Firms	3,256	3,848	4,722	5,383	5,771

Figures may not sum due to rounding.
p = preliminary
r = revised

[1] Includes broker-dealers with four quarters of data only.
[2] Registered representatives' compensation is included in "All Other Expenses" because it is not reported separately on Part IIA of the FOCUS Report.

Source: FOCUS Report

Table 3

UNCONSOLIDATED BALANCE SHEET FOR BROKER-DEALERS DOING A PUBLIC BUSINESS YEAR END, 1982-1986

(Millions of Dollars)

	1982	1983	1984	1985r	1986p
Assets					
1. Cash	$ 4,636	$ 3,755	$ 4,169	$ 6,443	$ 8,913
2. Receivable from Other Broker-Dealers:					
a. Securities Failed to Deliver	5,899	5,880	7,161	19,080	14,094
b. Securities Borrowed	15,936	17,992	20,761	36,392	37,358
c. Other	2,700	3,544	3,095	11,927	14,048
3. Receivable from Customers	24,762	31,947	30,198	47,407	54,091
4. Long Positions in Securities and Commodities	71,408	80,498	110,181	156,620	188,300
5. Securities Owned—not Readily Marketable	155	208	495	286	317
6. Securities Borrowed under Subordinated Agreements and Partners' Individual and Capital Securities Accounts	90	98	66	52	56
7. Securities Purchased under Agreements to Resell	53,733	78,362	107,434	143,066	188,277
8. Secured Capital Demand Notes	306	303	399	409	403
9. Exchange Memberships	286	306	325	365	398
10. Other Assets	9,716	12,121	14,709	21,645	26,276
11. Total Assets	$189,985	$234,994	$298,993	$443,692	$512,531
Liabilities and Equity Capital					
12. Bank Loans Payable:					
a. Secured by Customer Collateral	$ 2,843	$ 4,416	$ 4,951	$5,587	$ 4,525
b. Secured by Firm Collateral	8,749	15,606	22,835	38,474	34,764
13. Securities Sold under Repurchase Agreements	77,330	93,270	135,075	187,604	224,361
14. Payable to Other Broker-Dealers and Clearing Organizations:					
a. Securities Failed to Receive	6,766	4,789	7,058	18,892	13,970
b. Securities Loaned	14,029	15,432	15,844	29,362	27,295
c. Other	2,529	4,267	3,827	8,284	9,240
15. Payable to Customers	16,400	18,697	19,694	31,357	40,337
16. Short Positions in Securities and Commodities	30,960	40,521	45,773	81,788	78,372
17. Other Liabilities	16,211	20,181	21,818	32,830	39,857
18. Total Liabilities (Excluding Subordinated Debt)	175,817	217,159	276,875	414,153	472,721
19. Subordinated Debt	2,158	2,711	4,682	6,356	10,752
20. Total Liabilities	$177,975c	$219,870	$281,537	$420,514	$483,473
21. Equity Capital	$ 12,010c	$ 15,124	$ 17,456	$ 23,178	$ 29,058
22. Total Liabilities and Equity Capital	$189,985	$234,994	$298,993	$443,692	$512,531
Number of Firms	3,256	3,648	4,722	5,363	5,771

Figures may not sum due to rounding.
c = corrected
p = preliminary
r = revised

Source: FOCUS Report

Securities Industry Dollar In 1986 For Carrying and Clearing Firms

Data for carrying and clearing firms only are presented here to allow for more detail, as reporting requirements for firms which neither carry nor clear differ and data aggregation of these two types of firms necessarily results in loss of detail. Carrying and clearing firms are those firms which clear securities transactions or maintain possession or control of customers' cash or securities. This group produced 86 percent of the securities industry's total revenues in calendar year 1986.

Brokerage activity accounted for about 31 cents of each revenue dollar in 1986, exactly the same as in 1985. Securities commissions were the most important component, producing 20 cents of each dollar of revenue, while margin interest and revenues from mutual fund sales generated 5 cents and 6 cents, respectively.

The dealer side produced 60 cents of each dollar of revenue. Twenty-nine of these cents came from trading and investment, 11 cents from underwriting, and 20 cents from other securities-related revenues. The latter is comprised primarily of interest income from securities purchased under agreements to resell and fees from handling private placements, mergers and acquisitions.

Total expenses consumed 89 cents of each revenue dollar earned in 1986, almost the same as the 1985 level of 88 cents. This resulted in a pre-tax profit margin of 11 cents per revenue dollar.

Employee-related expenses (registered representatives' compensation and clerical and administrative employees' expenses) are the largest component of expenses. Employee-related expenses summed to $19.9 billion, and consumed 36 cents of the revenue dollar in 1986, a slight increase from 1985. In dollar terms, interest expense increased to $14.2 billion, $2.7 billion more than the year before. As a percent of revenues, however, interest expense declined slightly in 1986 to absorb 25 cents of each revenue dollar. Other expense categories consumed about the same proportion of the industry revenue dollar in 1986 as they did in 1985.

Total assets of broker-dealers carrying and clearing customer accounts rose by $71.8 billion to $509.7 billion in 1986. About 63 percent of this increase can be attributed to resale agreements, which rose to $188.4 billion. By year-end 1986, resale agreements had become the single most important item on the balance sheet of these firms, comprising 37 percent of assets. Firms' proprietary positions of $167.0 billion had a modest increase of 7.5 percent and accounted for 33 percent of assets. Most of the remaining assets represented receivables either from customers or other broker-dealers.

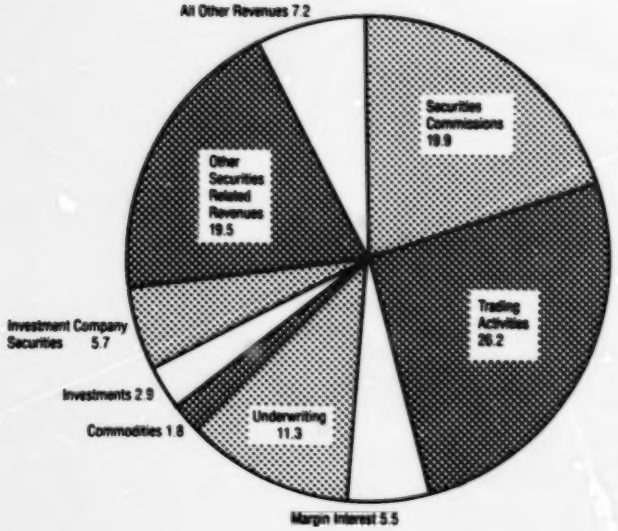
Total liabilities, including subordinated debt, increased $66.1 billion or 16 percent to $483.0 billion. About 87 percent of this growth was due to the $56.0 billion increase in repurchase agreements. Owners' equity rose 27 percent from $21.0 billion in 1985 to $26.7 billion, and total capital increased 36 percent to $36.7 billion from $27.0 billion in 1985.

Table 4

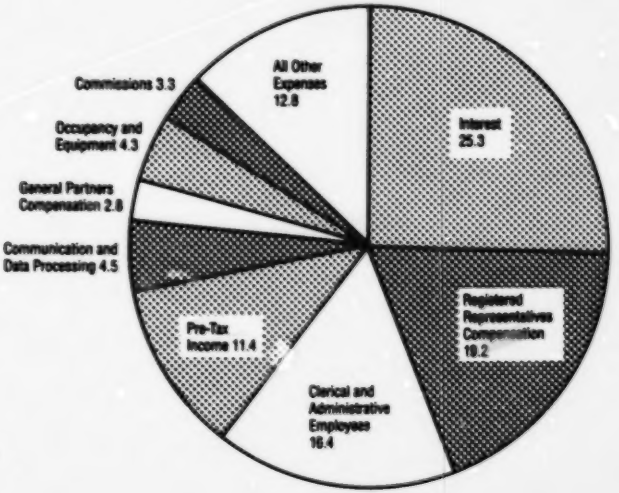
Securities Industry Dollar In 1986

For Carrying/Clearing Firms

SOURCES OF REVENUE



EXPENSES AND PRE-TAX INCOME



Figures may not add due to rounding.

NOTE: Includes information for firms that carry customer accounts or clear securities transactions.

SOURCE: X-17A-5 FOCUS REPORTS

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Table 5
UNCONSOLIDATED REVENUES AND EXPENSES FOR CARRYING/CLEARING BROKER-DEALERS
(Millions of Dollars)

	1985r		1986p		1985-1986
	Dollars	Percent of Total Revenues	Dollars	Percent of Total Revenues	Percent Change
Revenues					
1. Securities Commissions	$ 8,780	20.1%	$11,158	19.9%	27.1%
2. Gain (Loss) in Trading	11,441	26.1	14,649	26.2	28.0
3. Gain (Loss) in Investments	1,733	4.0	1,613	2.9	(6.9)
4. Profit (Loss) from Underwriting and Selling Groups	4,675	10.7	6,313	11.3	35.0
5. Revenue from Sale of Investment Company Securities	2,036	4.6	3,208	5.7	57.6
6. Margin Interest Income	2,800	6.4	3,071	5.5	9.7
7. Commodities Revenue	1,143	2.6	1,013	1.8	(11.4)
8. Other Revenue Related to Securities Business	8,233	18.8	10,907	19.5	32.5
9. Revenues from All Other Sources	2,931	6.7	4,006	7.2	36.7
10. Total Revenues	$43,772	100.0%	$55,938	100.0%	27.8%
Expenses					
11. Registered Representatives' Compensation	$ 8,162	18.7%	$10,730	19.2%	31.5%
12. Clerical and Administrative Employees' Expenses	6,759	15.4	9,147	16.4	35.3
13. Commissions and Clearance Paid to Others	1,501	3.4	1,858	3.3	23.8
14. Interest Expense	11,428	26.1	14,156	25.3	23.9
15. Communication and Data Processing	2,095	4.8	2,490	4.5	18.9
16. Occupancy and Equipment	2,020	4.6	2,414	4.3	19.5
17. Compensation to Partners and Voting Stockholder Officers	1,302	3.0	1,599	2.8	22.8
18. All Other Expenses	5,192	11.9	7,167	12.8	38.0
19. Total Expenses	$38,459	87.9%	$49,561	88.6%	28.9%
Pre-Tax Income					
20. Pre-Tax Income	$ 5,313	12.1%	$ 6,377	11.4%	20.0%
Number of Firms	1,250		1,302		4.2%

Figures may not sum due to rounding.
p = preliminary
r = revised

Note: Includes information for firms that carry customer accounts or clear securities transactions.

Source: FOCUS Report

Table 6

UNCONSOLIDATED BALANCE SHEET FOR CARRYING/CLEARING BROKER-DEALERS

(Millions of Dollars)

	Year End 1985r	Percent of Total Assets	Year End 1986p	Percent of Total Assets	Percent Change 1985-1986
Assets					
1. Cash	$ 6,291	1.4%	$ 8,477	1.7%	34.7%
2. Receivable From Other Broker-Dealers:	69,414	15.8	71,584	14.1	3.1
a. Securities Borrowed	39,053	8.9	40,291	7.9	3.2
b. Other Receivables	30,361	6.9	31,293	6.1	3.1
3. Receivable From Customers	47,624	10.9	54,336	10.7	14.1
4. Resale Agreements	143,289	32.7	188,406	37.0	31.5
5. Long Positions in Securities and Spot Commodities	155,361	35.5	166,968	32.8	7.5
6. Other Assets	15,896	3.6	19,875	3.9	25.0
7. Total Assets	$437,875	100.0%	$509,686	100.0%	16.4%
Liabilities and Equity Capital					
8. Bank Loans:	$ 44,361	10.1%	$ 39,863	7.8%	(10.6)%
a. Secured by Customer Sec.	5,586	1.3	4,464	.9	(20.1)
b. Secured by Proprietary Sec.	38,775	8.9	35,199	6.9	(9.2)
9. Payable to Other Broker-Dealers:	62,573	14.3	57,674	11.3	(7.8)
a. Securities Loaned	31,232	7.1	29,467	5.8	(5.6)
b. Other Payables	31,341	7.2	28,207	5.5	(10.0)
10. Payable to Customers:	31,732	7.3	40,891	8.0	28.9
a. Free Credit Balances	10,742	2.4	18,023	3.5	67.8
b. Other Credit Balances	20,990	4.8	22,868	4.5	9.0
11. Repurchase Agreements	168,364	38.5	224,363	44.0	33.3
12. Short Positions in Securities	76,488	17.5	77,070	15.1	.8
13. Subordinated Debt	6,062	1.4	10,039	2.0	65.6
14. Other Liabilities	27,345	6.2	33,278	6.5	21.7
15. Total Liabilities	416,905	95.2	482,978	94.8	15.8
16. Owners' Equity	20,972	4.8	26,688	5.2	27.3
17. Total Liabilities and Owners' Equity	$437,875	100.0%	$509,686	100.0%	16.4%
Total Capital	$ 27,034		$ 36,727		35.8%
Number of Firms	1,250		1,302		4.2%

Figures may not sum due to rounding.
p = preliminary
r = revised

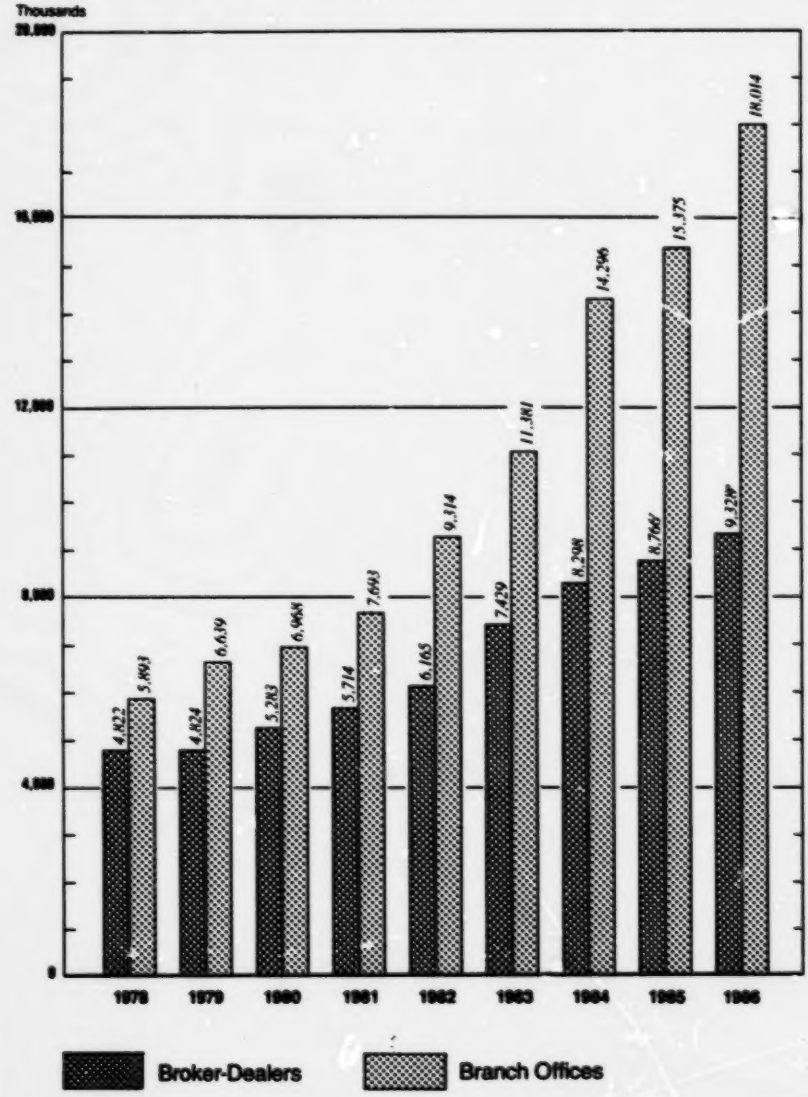
Source: FOCUS Report

Broker-Dealers, Branch Offices, Employees

The number of broker-dealers filing FOCUS Reports rose six percent from 8,766 in 1985 to 9,328 in calendar year 1986. During the same period, the number of branch offices increased seventeen percent from 15,375 to 18,014. The number of registered representatives employed in the securities industry rose from 357,133 to 404,000 in 1986, a thirteen percent increase.

Table 7

Broker-Dealers and Branch Offices



r = Revised *p = Preliminary*

SOURCE: FOCUS REPORT and National Association of Securities Dealers

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Table 8

BROKERS AND DEALERS REGISTERED UNDER THE SECURITIES EXCHANGE ACT OF 1934
EFFECTIVE REGISTRANTS AS OF SEPTEMBER 30, 1967
(CLASSIFIED BY TYPE OF ORGANIZATION AND BY LOCATION OF PRINCIPAL OFFICE)

	Number of Registrants			
	Total	Sole Proprietorships	Partnerships	Corporations[1]
ALABAMA	53	2	2	49
ALASKA	5	1	0	4
ARIZONA	102	4	4	94
ARKANSAS	61	2	0	59
CALIFORNIA	1,360	286	130	934
COLORADO	234	8	4	222
CONNECTICUT	200	18	15	167
DELAWARE	23	1	2	20
DISTRICT OF COLUMBIA	52	3	2	47
FLORIDA	485	21	16	448
GEORGIA	134	3	6	125
HAWAII	18	0	0	18
IDAHO	11	2	0	9
ILLINOIS	3,191	2,111	352	728
INDIANA	84	10	2	72
IOWA	42	2	1	39
KANSAS	43	1	1	41
KENTUCKY	35	3	0	32
LOUISIANA	77	5	5	67
MAINE	20	0	1	19
MARYLAND	111	3	2	106
MASSACHUSETTS	255	25	12	218
MICHIGAN	133	12	2	119
MINNESOTA	134	5	1	128
MISSISSIPPI	27	1	0	26
MISSOURI	119	6	1	112
MONTANA	6	1	0	5
NEBRASKA	33	2	1	30
NEVADA	18	5	0	13
NEW HAMPSHIRE	9	1	0	8
NEW JERSEY	435	87	49	299
NEW MEXICO	20	0	0	20
NEW YORK	2,871	744	384	1,543
NORTH CAROLINA	90	6	0	84
NORTH DAKOTA	3	0	0	3
OHIO	180	7	11	162
OKLAHOMA	50	2	0	48
OREGON	54	2	1	51
PENNSYLVANIA	480	20	80	380
RHODE ISLAND	32	5	1	26
SOUTH CAROLINA	49	2	2	45
SOUTH DAKOTA	5	0	0	5
TENNESSEE	135	6	2	127
TEXAS	523	36	10	477
UTAH	51	2	0	49
VERMONT	10	2	1	7
VIRGINIA	90	3	2	85
WASHINGTON	130	6	1	123
WEST VIRGINIA	10	0	0	10
WISCONSIN	99	7	0	92
WYOMING	6	1	1	4
TOTAL	12,188	3,482	1,107	7,599
FOREIGN[2]	23	2	2	19
GRAND TOTAL	12,211	3,484	1,109	7,618

[1] Includes all forms of organization other than sole proprietorships and partnerships.
[2] Registrants whose principal offices are located in foreign countries or other jurisdictions not listed.

Table 9
APPLICATIONS AND REGISTRATIONS OF BROKERS, DEALERS AND INVESTMENT ADVISERS
Fiscal Year 1987

BROKER-DEALERS		
Applications for Registration		
Received during Fiscal 1987		3,818[1]
Disposition of Applications:		
Registration Effected	1,497	
Returned	2,158	
Withdrawn	6	
Denied	0	
Total Applications Disposed of		3,361
Total Pending as of September 30, 1987		157
Terminations of Registration:		
Withdrawn	806	
Revoked	7	
Cancelled	258	
Total Terminations during Fiscal 1987		1,071
Total Registrations at end of Fiscal 1987		12,211
INVESTMENT ADVISERS		
Applications for Registration		
Received during Fiscal 1987		4,882
Disposition of Applications:		
Registration Effected	2,045	
Returned	2,816	
Withdrawn	4	
Denied	1	
Total Applications Disposed of		4,866
Total Pending as of September 30, 1987		216
Terminations of Registration:		
Withdrawn	650	
Revoked	9	
Cancelled	3,379[2]	
Total Terminations at end of Fiscal 1987		4,038
Total Registrations at end of Fiscal 1987		15,585

[1]This figure reflects resubmissions of returned filings as well as initial applications.
[2]These cancellations are for inactive registrations not previously reflected.

Table 10

APPLICATIONS AND REGISTRATIONS OF BROKERS, DEALERS AND INVESTMENT ADVISERS

Fiscal Year 1987

MUNICIPAL SECURITIES DEALERS		
Applications for Registration		
Received during Fiscal 1987		14[1]
Disposition of Applications:		
Registration Effected	10	
Returned	3	
Withdrawn	0	
Denied	0	
Total Applications Disposed of		13
Total Pending as of September 30, 1987		1
Terminations of Registration:		
Withdrawn	10	
Revoked	0	
Cancelled	0	
Total Terminations during Fiscal 1987		10
Total Registrations at end of Fiscal 1987		424
TRANSFER AGENTS		
Applications for Registration		
Received during Fiscal 1987		149[1]
Disposition of Applications:		
Registration Effected	96	
Returned	51	
Withdrawn	0	
Denied	0	
Total Applications Disposed of		147
Total Pending as of September 30, 1987		0
Terminations of Registration:		
Withdrawn	66	
Revoked	0	
Cancelled	42[2]	
Total Terminations at end of Fiscal 1987		108
Total Registrations at end of Fiscal 1987		902

[1]This figure reflects resubmissions of returned filings as well as initial applications.
[2]These cancellations are for inactive registrations not previously reflected.

Self-Regulatory Organizations: Expenses, Pre-Tax Income and Balance Sheet Structure

In 1986 the total revenues of self-regulatory organizations ("SROs") with marketplace jurisdiction rose approximately $133.1 million to $778.2 million, an increase of 21% over 1985 (the 1985 increase was 15% over 1984). The New York Stock Exchange ("NYSE"), National Association of Securities Dealers ("NASD") and American Stock Exchange ("Amex") accounted for 67% of these SROs' total revenues. Most of the SRO revenues came from listing, trading, and market data fees. The NYSE reported total revenues of $296.3 million, of which 58% consisted of listing and trading fees. The Amex reported total revenues of $102.2 million, and NASD reported $124.5 million. The Chicago Board Options Exchange ("CBOE") had the largest percentage increase (31%) in revenues for the second consecutive year.

The total expenses of all marketplace SROs were $647.5 million in 1986, an increase of $83 million (15%) over 1985. The Midwest Stock Exchange ("MSE") had the largest percentage increase in total expenses, 22%. The Spokane Stock Exchange's ("SSE") total expenses remained unchanged in 1986, with expenses totaling $57,000.

Aggregate pre-tax income of these SROs rose to $125.3 million in 1986 from $73.8 million in 1985, an increase of 70%. Pre-tax profit margins widened because aggregated total revenues increased 21% and aggregate total expenses increased only 15%. These wider margins can be partly attributed to rising trading volume and a corresponding increase in transaction fees. The NYSE had a pretax income of $48.6 million, a 36% increase from 1985. The CBOE had an increase of $9.2 million, from $9.2 million to 18.4 million. Amex had an increase of $10.1 million or 105%, the Philadelphia Stock Exchange ("Phlx") an increase of $2.3 million or 115%, and the Boston Stock Exchange ("BSE") an increase of $799 thousand or 116%. The Pacific Stock Exchange ("PSE") had a 1986 pre-tax income of $1.2 million, an increase of 12% over 1985 pre-tax income. Finally, the CSE had a pre-tax income of $113 thousand, a significant reversal of its 1985 performance in which the CSE had a pre-tax loss of $37 thousand. In addition, 1986 was the first year in five in which the CSE reported a net pre-tax gain rather than a pre-tax loss.

The total assets of all marketplace SROs were $1,556 million in 1986, an increase of 31% from 1985. The NYSE's total assets increased by $27.8 million or 9%, from 1985 to 1986. The total assets of the MSE and the Phlx also increased significantly but these increases were due largely to increased asset levels at certain subsidiaries.

The aggregate net worth of the SROs rose to $474.7 million in 1986 from $400.9 million in 1985, an increase of 18%. The largest percentage increase was at the CSE (160%), followed by the Spokane Stock Exchange (40%), the BSE (30%), and the NASD (27%). The NYSE's net worth increased by 14% from $162.7 million to $184.8 million.

Aggregate clearing agency service revenue increased by 24%, or $54 million, in 1986 due to increases in securities trading volume and additional use of depository services. Total deposisitory service revenue increased $36 million primarily due to a $29 million gain by the Depository Trust Company ("DTC") and a $5 million gain by the Midwest Securities Trust Company ("MSTC"). Service revenue of clearing corporations increased by $18 million, which was largely attributable to increases of almost $4 million at the Options Clearing Corporation ("OCC") and $12 million at the National Securities Clearing Corporation ("NSCC").

The depositories continued to expand the base for service revenues by increasing the number of shares on deposit and the face value of debt securities in custody. At the end of 1986, the total value of securities in the depository system reached $2.8 trillion, of which DTC alone held over $1.4 trillion not including some $1.1 trillion in cer-

tificates held by transfer agents as DTC's agent. This movement of certificates into depositories was due to further expansion of the lists of depository eligible issues and the desire of participants to avail themselves of depository services. The MSTC had 541,000 eligible issues at year end, up 59%, and DTC had 372,000, up 42%. The major portion of the growth was in debt issues, particularly municipal bonds, which increased 38% to approximately $450 billion of face value. This represents 58% of the value of all municipal bonds outstanding in the United States.

Total depository pre-tax income was down $2.7 million, 47% from the previous year's result. In 1986, DTC made $2 million less than last year when they had increased shareholders' equity to mitigate business uncertainties. DTC, like all clearing agencies, adjusts refunds of fees and fee structures to earn funds to meet expenses and provide the amount of earnings which it wishes to retain.

The clearing corporations recorded an aggregate increase in pre-tax income of almost $3.8 million. NSCC posted pre-tax earnings of $6.5 million, up $3.2 million over 1985. The OCC recorded a significant decrease in pre-tax income of almost $1.2 million; most of this change was due to last year's one-time increase of over $1 million which was used to capitalize a new subsidiary, the Intermarket Clearing Corporation ("ICC"). OCC, through management of fees, reported a slight loss for the options operations while reporting a profit at ICC equal to ICC's loss of its initial year, 1985.

The Pacific Clearing Corporation ("PCC") incurred a pre-tax loss of over $300,000 after reporting a loss of $1.2 million in 1985. The Pacific Securities Depository Trust Company ("PSDTC") reported a pre-tax loss of $292,000 in 1986 versus a pre-tax operating gain of $189,000 the previous year. In 1986, PSE, the parent company, transferred revenues from equities trading to PCC and PSDTC in the amounts of $787,000 and $322,000, respectively, thus increasing service revenues. Further PSE support to its subsidiaries was provided by forgiving allocated administrative and financial services furnished by the parent to PCC and PSDTC in the amounts of $654,000 and $2.1 million respectively. The combined net worth of PCC and PSDTC further declined to $124,000 from $433,000 at the end of 1985. Subsequently, in April 1987, the Board of Directors of the PSE authorized the closure of those clearing and depository functions not essential to the operation of the PSE. The one-time cost of closure was projected to be between $5 and $7 million.

The aggregate net worth of all clearing corporations and depositories rose by $6 million to a new high of almost $39 million. In addition to the increase in net worth, participant clearing fund contributions which provide protection to the clearing agencies in the event of a participant default also increased. Should a participant default and its losses exceed its deposit, the entire participants' fund may be charged on a pro rata basis. However, no clearing agency has ever assessed non-failing participants' contributions. The equity clearing (participants') funds increased by 30% to $360 million. Depository clearing (participants') funds increased slightly to $223 million.

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Table 11

CONSOLIDATED FINANCIAL INFORMATION OF SELF-REGULATORY ORGANIZATIONS

1983-1986

(Thousands of Dollars)

	Amex[1]	BSE[2]	CBOE[3]	CSE[1]	ISE[4]	MSE[1]	NASD[2]	NYSE[1]	PSE[1]	PHLX[1]	SSE[1]	Total
Total Revenues												
1983	$73,115	$8,411	$46,124	$444	$26	$39,778	$75,101	$216,804	$37,206	$19,25 8	$43	$516,311
1984	75,775	8,011	54,812	987	23	45,505	91,478	223,301	38,645	21,161	58	559,7 54
1985	84,503	9,221	71,889	1,239	23	57,081	97,343	257,706	41,903	24,100	61	645 ,089
1986	102,252	11,160	93,816	1,526	—	71,576	124,501	296,364	46,591	30,376	82	778,244
Total Expenses												
1983	60,189	8,156	39,939	460	20	33,893	58,971	179,251	36,809	18,600	37	434,3 25
1984	61,665	7,423	53,405	1,762	19	39,889	71,896	207,066	37,892	19,168	36	500 ,241
1985	69,465	7,971	62,641	1,312	20	54,617	83,890	222,007	40,113	22,031	57	564 ,124
1986	77,709	9,673	75,325	1,432	—	66,562	97,932	247,749	45,184	25,937	57	647,560
Pre-Tax Income												
1983	12,927	255	6,185	(16)	6	5,885	16,130	37,553	397	2,858	6	81,986
1984	9,267	588	1,406	(775)	8	5,383	19,582	16,215	(759)	1,994	19	56,930
1985	9,596	687	9,247	(37)	7	1,910	13,453	35,699	1,113	2,069	4	73,748
1986	19,675	1,486	18,491	113	—	4,864	26,569	48,615	1,251	4,439	24	125,327
Total Assets												
1983	62,390	8,455	68,006	568	40	168,738	70,247	250,457	183,841	40,682	21	883 ,292
1984	66,329	8,317	88,152	694	51	136,994	93,363	272,639	114,740	46,219	40	827 ,536
1985	74,937	12,262	95,539	704	57	346,484	108,658	327,075	126,966	94,968	43	1 ,187,723
1986	92,948	12,856	109,707	992	—	482,116	138,245	354,959	241,917	122,835	65	1,556,600
Total Liabilities												
1983	16,839	7,136	36,688	305	1	153,733	15,354	115,579	171,121	26,853	2	574,255
1984	16,122	6,614	53,748	583	1	118,290	19,888	128,010	101,748	30,269	4	475,277
1985	18,927	9,920	56,060	630	2	326,161	22,154	184,286	113,003	75,712	4	788,8 59
1986	26,099	9,804	60,221	757	—	459,159	28,039	170,119	227,039	100,653	5	1,081,890
Net Worth												
1983	45,554	1,319	31,318	263	39	15,005	53,893	134,878	12,720	14,029	19	308,0 37
1984	50,207	1,702	34,434	111	49	18,704	73,475	144,629	12,992	15,950	36	352,2 89
1985	56,010	2,343	39,478	75	55	20,323	86,534	162,789	13,963	19,256	43	400,86 9
1986	$66,849	$3,052	$49,486	$195	—	$22,957	$110,206	$184,840	$14,878	$22,182	$80	$474,705

[1]Fiscal year ending December 31.
[2]Fiscal year ending September 30.
[3]Fiscal year ending June 30.
[4]The Intermountain Stock Exchange became inactive on October 31, 1986, and was unable to provide information for 1986.

Sources: SRO Annual Reports and Consolidated Financial Statements.

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Table 12

SELF-REGULATORY ORGANIZATIONS—CLEARING AGENCIES
1986 REVENUES and EXPENSES[1]

(thousands of dollars)

	Boston Stock Exchange Clearing Corporation 9/30/86	Depository Trust Company 12/31/86	Midwest Clearing Corporation 12/31/86	Midwest Securities Trust Company 12/31/86	National Securities Clearing Corporation 12/31/86[2]	Options Clearing Corporation 12/31/86	Pacific Clearing Corporation 12/31/86[3]	Pacific Securities Depository Trust Company 12/31/86[3]	Philadelphia Depository Trust Company 12/31/86	Stock Clearing Corporation of Philadelphia 12/31/86	Total
Revenues											
Clearing services	$ 4,115		$ 8,018		$ 62,316	$ 29,323	$ 7,128			$ 2,140	$113,040
Depository services		$ 125,828		$28,337				$ 8,822	$7,106		170,093
Interest	348	66,604	2,893	1,959	3,088	1,504	376	2,499	342	451	80,063
Other	134		1,140	1,906		4,468	15	273	0	626	8,562
Total revenues[4]	4,595	192,432	12,051	32,202	65,404	35,295	7,519	11,594	7,448	3,2 17	371,757
Expenses											
Employee costs	594	108,685	4,581	10,559	6,977	15,944	2,915	5,475	3,228	1,269	160,227
Data processing and communications costs	1,646	19,675	1,364	2,322	34,184	6,872	2,781	2,130	2,952	991	74,917
Occupancy costs	367	22,808	1,429	4,384	1,560	3,227	773	576	484	177	35,585
Contracted services cost	405			5,422	11,356						17,183
All other expenses	285	38,484	3,165	9,485	4,871	9,318	1,394	3,705	510	350	71,547
Total expenses	3,297	189,432	10,539	32,172	58,948	35,361	7,863	11,886	7,174	2,787	3 59,459
Excess of revenues over expenses[5]	$1,298	$ 3,000	$1,512	$ 31	$ 6,456	$ (66)	$ (344)	$ (292)	$ 274	$ 430	$ 12,299
Shareholders' Equity	$2,121	$ 14,941	$3,445	$ 3,219	$ 8,800	$ 4,562	$ (197)	$ (675)	$1,108	$1,580	$ 38,904
Clearing Fund:											
Depository		$204,000		$16,840				$ 1,393	$ 585		$222,818
Option Clearing						$209,998					$209,998
Equity Clearing	$ 757		$4,023		$349,002		$2,812			$3,796	$360,390

[1]Although efforts have been made to make the presentations comparable, any single revenue or expense category may not be completely comparable between any two clearing agencies because of (i) the varying classification methods employed by the clearing agencies in reporting operating results and (ii) the grouping methods employed by the Commission staff due to these varying classification methods.

[2]The consolidated financial statements of NSCC includes the International Securities Clearing Corporation ("ISCC"), a wholly owned subsidiary of NSCC.

[3]The Pacific Stock Exchange forgave PCC and PSDTC their allocated cost for administrative and financial services provided them by the PSE. Had these charges not been forgiven, PCC and PSDTC's expenses would have been greater by $654,000 and $2,110,000, respectively. The PSE transfered revenue from equities trading to PCC and PSDTC to more equitably reflect the revenues earned by each line of the business; this increased service revenues by $787,000 and $322,000, respectively. As a subsequent event, in April 1987, the Board of Governors of the PSE authorized the closure of PCC and PSDTC.

[4]Revenues are net of refunds which have the effect of reducing a clearing agency's base fee rates.

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Table 13

MUNICIPAL SECURITIES RULEMAKING BOARD
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE

for the years ended September 30, 1987, 1986 and 1985

	1987	1986	1985
Revenues:			
Assessment fees	$2,201,829	$4,489,810	$1,810,798
Annual fees	264,500	249,900	233,825
Initial fees	29,400	33,800	27,300
Investment income	337,292	160,465	79,892
Board manuals and other	90,016	66,561	40,631
	2,923,037	5,000,536	2,192,446
Expenses:			
Salaries and employee benefits	796,048	726,068	715,565
Board and committee	476,329	456,037	535,852
Operations	424,080	369,788	391,183
Education and communication	336,296	306,647	321,164
Professional services	141,546	42,364	72,965
Depreciation and amortization	58,014	56,375	32,944
	2,232,313	1,957,279	2,069,673
Income from operations	690,724	3,043,257	122,773
Gain on termination of lease	—	—	46,844
Excess of revenues over expenses	690,724	3,043,257	169,617
Fund balance, beginning of year	4,424,741	1,381,484	1,211,867
Fund balance, end of year	$5,115,465	$4,424,741	$1,381,484

EXEMPTIONS

Section 12(h) Exemptions

Section 12(h) of the Exchange Act authorizes the Commission to grant a complete or partial exemption from the registration provisions of Section 12(g) or from other disclosure and insider trading provisions of the Act where such exemption is consistent with the public interest and the protection of investors.

For the year beginning October 1, 1986, nine applications were pending and an additional six applications were filed during the year. All fifteen of these applications were granted. No applications were pending at the close of the year.

Exemptions For Foreign Private Issuers

Rule 12g3-2 provides various exemptions from the registration provisions of Section 12(g) of the Exchange Act for the securities of foreign private issuers. Perhaps the most important of these is that contained in subparagraph (b) which provides an exemption for certain foreign issuers which submit, on a current basis, the material specified in the rule. Such material includes that information about which investors ought reasonably to be informed and which the issuer: (1) has made public pursuant to the law of the country of domicile or in which it is incorproated or organized; (2) has filed with a foreign stock exchange on which its securities are traded and which was made public by such exchange; and or (3) has distributed to its security holders. Periodically, the Commission publishes a list of those foreign issuers which appear to be current under the exemptive provision. The most current list is as of April 30, 1988, and contains a total of 1,684 foreign issuers.

FINANCIAL INSTITUTIONS

There were 3,074 companies registered under the Investment Company Act of 1940 as of September 30, 1987. New registrations totaled 422 with 44 registrations terminated during the fiscal year. This compares with 1986 fiscal year figures of 2,583 total registrations, 299 new registrations and 47 terminations.

Table 14
COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940
AS OF SEPTEMBER 30, 1987

	New Registrations	Terminations	Approximate Market Value of Assets of Active Companies (Billions)[1]
Management Open-End (Mutual Funds) (Non-Insurance Company)	343	50	$ 913
Management Closed-End:			
SBIC's	3	0	
All Others	76	11	
Sub-Total	79	11	60
Unit Investment Trust (Non-Insurance Company)	83	13	125
Face Amount Certificates	0	0	2
Insurance Company, Both Open-End Management and Unit Investment Trust[2]	0	0	110
TOTALS for Fiscal 1987	505	74	$1,210

Total Number of Active Registered Investment Companies as of September 30, 1987: 3,305[3]

[1]The approximate market value of assets was calculated using various published services as well as staff estimates.

[2]Could also be selling pressure from insurance companies because they do not permit switching among the various types of investments (i.e., equity and debt).

[3]There are approximately 197 inactive companies registered. Inactive refers to registered companies which as of September 30, 1987, were in the process of being liquidated or merged, or have filed an application pursuant to Section 8(f) of the Act for deregistration, or which have otherwise gone out of existence and remain only until such time as the Commission issues an order under Section 8(f) terminating their registration.

Table 15

COMPANIES REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940

Fiscal year ended September 30	Registered at beginning of year	Registered during year	Registration terminated during year	Registered at end of year	Approximate market value of assets of active companies (millions)
1941	0	450	14	436	$ 2,500
1942	436	17	46	407	2,400
1943	407	14	31	390	2,300
1944	390	18	27	371	2,200
1945	371	14	19	366	3,250
1946	366	13	18	361	3,750
1947	361	12	21	352	3,600
1948	352	18	11	359	3,625
1949	359	12	13	358	3,700
1950	358	26	18	366	4,700
1951	366	12	10	368	5,600
1952	368	13	14	367	6,800
1953	367	17	15	369	7,000
1954	369	20	5	384	8,700
1955	384	37	34	387	12,000
1956	387	46	34	399	14,000
1957	399	49	16	432	15,000
1958	432	42	21	453	17,000
1959	453	70	11	512	20,000
1960	512	67	9	570	23,500
1961	570	118	25	663	29,000
1962	663	97	33	727	27,300
1963	727	48	48	727	36,000
1964	727	52	48	731	41,800
1965	731	50	54	727	44,800
1966	727	78	30	775	49,800
1967	755	108	41	842	58,197
1968	842	167	42	967	69,732
1969	967	222	22	1,167	72,485
1970	1,167	187	26	1,328	56,337
1971	1,328	121	98	1,351	78,109
1972	1,351	91	108	1,334	80,816
1973	1,334	91	64	1,361	73,149
1974	1,361	106	90	1,377	62,287
1975	1,377	88	66	1,399	74,192
1976	1,399	63	86	1,376	80,584
1977*	1,403	91	57	1,437	76,904
1978	1,437	98	64	1,471	93,921
1979	1,471	83	47	1,507	108,572
1980	1,507	136	52	1,591	155,981
1981	1,591	172	80	1,683	193,362
1982	1,683	305	45	1,944	281,644
1983	1,944	287	50	2,181	330,458
1984	2,181	256	54	2,331	250,321
1985	2,331	299	47	2,583	525,000
1986	2,583	422	44	3,074	742,000
1987**	3,074	505	74	3,305	1,210

*Began Fiscal Year Ending September 30, 1977
**Figures Changed to Billions

SECURITIES ON EXCHANGES

Market Value and Share Volume

The market value of stocks, options, warrants and rights on registered exchanges totaled $1.9 trillion in calendar year 1986. Of this total, $1.7 trillion, or 91 percent, represented the market value of transactions in stocks, rights and warrants and $160.8 billion or nine percent in equity (including exercises) and non-equity options transactions. The value of equity/option transactions on the New York Stock Exchange (excluding exercises) was $1.5 trillion, up 42 percent from the previous year. The market value of such transactions rose 64 percent to $62.7 billion on the American Stock Exchange and increased 43 percent to $352.7 billion on all other exchanges. The volume of trading in stocks on all registered exchanges totaled 48.3 billion shares in calendar year 1986, a 30 percent increase over the previous year, with 81 percent of the total accounted for by trading on the New York Stock Exchange.

The volume of options contracts (including exercises) traded on options exchanges was 303.7 million contracts in calendar year 1986, 25% higher than in 1985. The market value of these contracts increased 49% to $160.8 billion. The volume of contracts (excluding exercises) executed on the Chicago Board Options Exchange increased 21 percent to 180.4 million; option trading on the American Stock Exchange rose 35 percent; Philadelphia Stock Exchange contract volume rose 35 percent; and Pacific Stock Exchange contract volume rose 10 percent.

Table 16 A

MARKET VALUE OF EQUITY/OPTIONS SALES ON U.S. SECURITIES EXCHANGES

(Thousands of Dollars)

	Total Market Value	Equity Options					Non-Equity Options[4]
		Stocks[1]	Warrants	Rights	Traded[2]	Exercised[3]	
All Registered Exchanges for Past Six Years							
Calendar Year: 1981	$ 567,089,795	$ 490,688,158	$ 327,295	$ 1,686	$41,423,216	$34,649,440	$ 0
1982	693,850,963	602,689,878	423,236	1,152	53,659,796	37,046,803	50,098
1983	1,082,241,196	957,139,047	1,162,124	2,997	59,598,740	59,714,431	4,623,857
1984r	1,059,940,183	950,878,406	430,291	9,751	33,822,260	55,639,998	19,159,477
1985r	1,259,109,168	1,199,350,836	751,850	25,162	29,952,739	49,182,980	29,028,581
1986	$1,867,887,058	$1,705,123,953	$1,683,395	$359,764	$40,054,282	$72,827,859	$47,887,805
Breakdown of 1986 Data by Registered Exchanges[5]							
All Registered Exchanges							
American Stock Exchange	$ 62,671,005	$ 43,432,469	$ 215,572	$ 510	$12,868,992	$ N.A	$ 6,153,462
Boston Stock Exchange	24,604,904	24,604,904	0	0	0	0	0
Cincinnati Stock Exchange	6,936,151	6,936,151	0	0	0	0	0
Midwest Stock Exchange	102,362,283	102,362,283	0	0	0	0	0
New York Stock Exchange	1,452,542,789	1,450,150,125	956,764	345,909	301,526	N.A	788,465
Pacific Stock Exchange	54,998,092	50,757,818	457,892	13,345	3,710,207	N.A	58,830
Philadelphia Stock Exchange	35,028,469	26,866,492	3,167	0	3,619,220	N.A	4,539,590
Intermountain Stock Exchange	126	126	0	0	0	0	0
Spokane Stock Exchange	13,585	13,585	0	0	0	0	0
Chicago Board Options	$ 55,901,795	$ 0	$ 0	$ 0	$19,554,337	$ N.A	$36,347,456

Note: For footnotes see Table 16 B.

Table 16 B
VOLUME OF EQUITY/OPTIONS SALES ON U.S. SECURITIES EXCHANGES
(Data in Thousands)

	Stocks[1] (Shares)	Warrants (Units)	Rights (Units)	Equity Options Traded[2] (Contracts)	Equity Options Exercised[3] (Contracts)	Non-Equity Options[4] (Contracts)
All Registered Exchanges For Past Six Years						
Calendar Year: 1981	15,910,050	46,553	12,583	109,404	7,431	0
1982	22,414,379	56,051	21,505	137,263	8,302	41
1983	30,146,336	157,942	11,737	134,296	13,630	14,399
1984r	30,456,438	77,652	13,924	118,927	11,919	77,512
1985r	37,045,909	108,111	33,547	118,556	10,512	114,248
1986	48,337,694	195,501	47,329	141,931	14,545	147,234
Breakdown of 1986 Data by Registered Exchanges						
All Registered Exchanges						
*American Stock Exchange	2,998,859	50,576	1,883	47,139	4,567	18,301
*Boston Stock Exchange	647,135	0	0	0	0	0
*Cincinnati Stock Exchange	145,261	0	0	0	0	0
Midwest Stock Exchange	2,783,626	0	0	0	0	0
*New York Stock Exchange	39,258,480	106,331	44,508	1,051	101	3,771
Pacific Stock Exchange	1,750,361	37,822	938	13,943	1,447	134
*Philadelphia Stock Exchange	742,819	772	0	15,054	1,616	9,418
Intermountain Stock Exchange	259	0	0	0	0	0
Spokane Stock Exchange	10,894	0	0	0	0	0
*Chicago Board Options	0	0	0	84,744	6,794	115,610

Figures may not sum due to rounding

r = revised

N.A. = Not Available

*Data of those exchanges marked with an asterisk cover transactions cleared during the calendar month; clearance usually occurs within five days of the execution of a trade. Data of other exchanges cover transactions effect trade dates falling within the reporting month.

[1]Includes voting trust certificates, certificates of deposit for stocks, and American Depository Receipts for stocks but excludes rights and warrants.

[2]Data for June 1, 2, and 3, 1983 are not included.

[3]Exercised Contracts do not include January and February 1985 data.

[4]Includes all exchange trades of call and put options in stock indices, interest rates and foreign currencies.

[5]Total market value for individual exchanges does not include data for equity options exercised.

Source: SEC Form R-31 and Options Clearing Corporation Statistical Report.

NASDAQ (Volume and Market Value)

NASDAQ share volume and market value information for over-the-counter trading has been reported on a daily basis since November 1, 1971. At the end of 1986 there were 5,189 issues in the NASDAQ system. Volume for calendar year 1986 was 28.7 billion shares, up 39 percent from the 20.7 billion shares traded in the previous year. It was the highest volume in NASDAQ's 15-year history. This trading volume encompasses the number of shares bought and sold by market-makers plus their net inventory changes. The market value of shares traded in the NASDAQ system was $378.2 billion at the end of 1986, the highest ever.

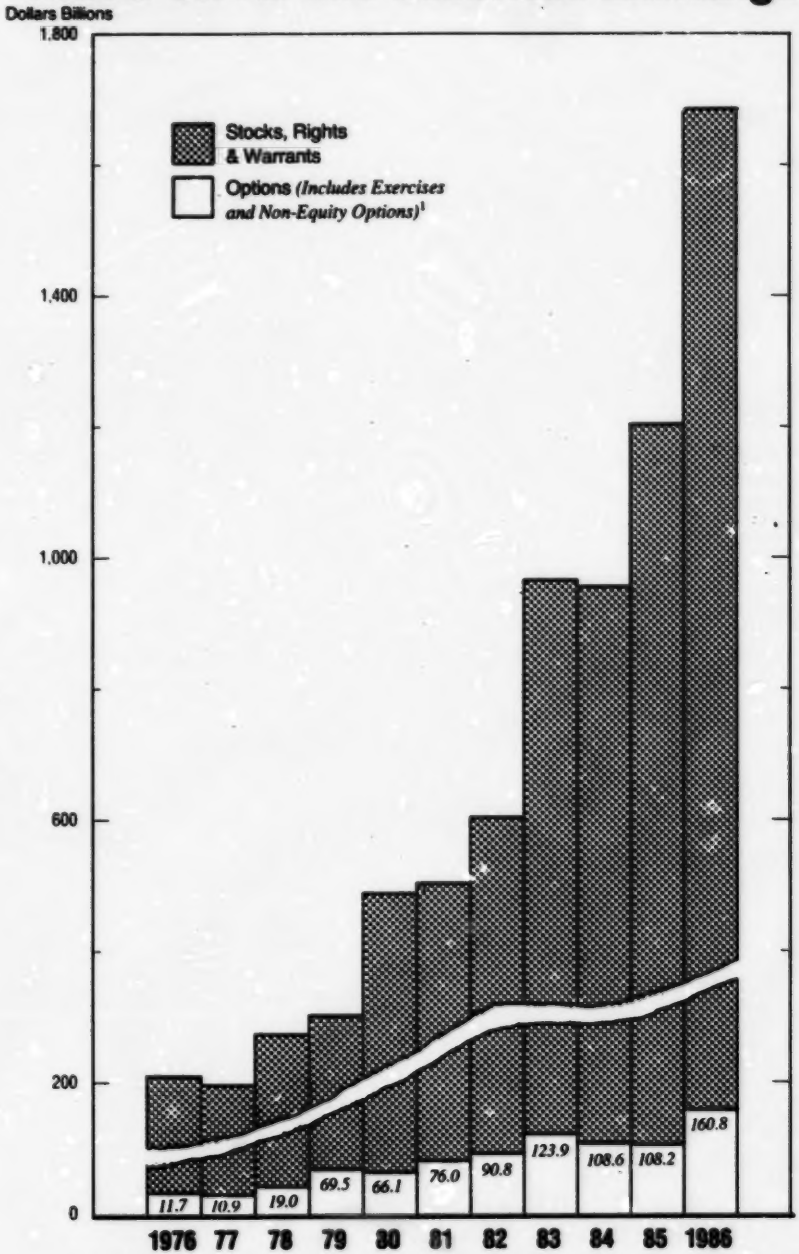
Share and Dollar Volume by Exchange

Share volume in calendar year 1986 for stocks, rights and warrants on exchanges totaled 48.6 billion, an increase of 31 percent from the previous year. The New York Stock Exchange accounted for 81 percent of the 1986 share volume; the American Stock Exchange, six percent; the Midwest Stock Exchange, six percent; and the Pacific Stock Exchange, four percent.

The market value of stocks, rights and warrants traded was $1.7 trillion, 42 percent over 1985. Trading on the New York Stock Exchange contributed 85 percent of the total. The Midwest Stock Exchange and Pacific Stock Exchange contributed six percent and three percent, respectively. The American Stock Exchange accounted for three percent of dollar volume.

Table 17

Market Value of Equity/Options Traded On All U.S. Securities Exchanges



[1]*Includes equity options exercised as of 1/1/80; non-equity options as of 10/22/82*

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Table 18
SHARE VOLUME BY EXCHANGES[1]
(Percentages)

Year	Total Share Volume (Thousands)	NYSE	AMEX	MSE	PSE	PHLX	BSE	CSE	Other[2]
1945	769,018	65.87	21.31	1.77	2.98	1.06	0.66	0.05	6.30
1950	893,320	76.32	13.54	2.16	3.11	0.97	0.65	0.09	3.16
1955	1,321,401	68.85	19.19	2.09	3.08	0.85	0.48	0.05	5.41
1960	1,441,120	68.47	22.27	2.20	3.11	0.88	0.38	0.04	2.65
1961	2,142,523	64.99	25.58	2.22	3.41	0.79	0.30	0.04	2.67
1962	1,711,945	71.31	20.11	2.34	2.95	0.87	0.31	0.04	2.07
1963	1,880,793	72.93	18.83	2.32	2.82	0.83	0.29	0.04	1.94
1964	2,118,326	72.81	19.42	2.43	2.65	0.93	0.29	0.03	1.44
1965	2,671,012	69.90	22.53	2.63	2.33	0.81	0.26	0.05	1.49
1966	3,313,899	69.38	22.84	2.56	2.68	0.86	0.40	0.05	1.23
1967	4,646,553	64.40	28.41	2.35	2.46	0.87	0.43	0.02	1.06
1968	5,407,923	61.98	29.74	2.63	2.64	0.89	0.78	0.01	1.33
1969	5,134,856	63.16	27.61	2.84	3.47	1.22	0.51	0.00	1.19
1970	4,834,887	71.28	19.03	3.16	3.68	1.63	0.51	0.02	0.69
1971	6,172,668	71.34	18.42	3.52	3.72	1.91	0.43	0.03	0.63
1972	6,518,132	70.47	18.22	3.71	4.13	2.21	0.59	0.03	0.64
1973	5,899,678	74.92	13.75	4.09	3.68	2.19	0.71	0.04	0.62
1974	4,950,842	78.47	10.28	4.40	3.48	1.82	0.86	0.05	0.64
1975	6,376,094	80.99	8.97	3.97	3.26	1.54	0.85	0.13	0.29
1976	7,129,132	80.05	9.35	3.87	3.93	1.42	0.78	0.44	0.16
1977	7,124,640	79.71	9.56	3.96	3.72	1.49	0.66	0.64	0.26
1978	9,630,065	79.53	10.65	3.56	3.84	1.49	0.60	0.16	0.17
1979	10,960,424	79.86	10.85	3.30	3.27	1.64	0.55	0.28	0.23
1980	15,586,986	79.94	10.78	3.84	2.80	1.54	0.57	0.32	0.21
1981	15,969,186	80.68	9.32	4.60	2.87	1.55	0.51	0.37	0.10
1982	22,491,935	81.22	6.96	5.09	3.62	2.18	0.48	0.38	0.07
1983	30,316,014	80.37	7.45	5.48	3.56	2.20	0.65	0.19	0.10
1984r	30,548,014	82.54	5.26	6.03	3.31	1.79	0.85	0.18	0.04
1985r	37,187,567	81.52	5.78	6.12	3.66	1.47	1.27	0.15	0.03
1986	48,580,524	81.12	6.28	5.73	3.68	1.53	1.33	0.30	0.02

r = revised

[1] Share volume for exchanges includes stocks, rights, and warrants.
[2] Includes all exchanges not listed individually.

Source: SEC Form R-31

Table 19
DOLLAR VOLUME BY EXCHANGES[1]
(Percentages)

Year	Total Dollar Volume (Thousands)	NYSE	AMEX	MSE	PSE	PHLX	BSE	CSE	Other[2]
1945	$ 16,284,552	82.75	10.81	2.00	1.78	0.96	1.16	0.06	0.48
1950	21,808,284	85.91	6.85	2.35	2.19	1.03	1.12	0.11	0.44
1955	38,039,107	86.31	6.98	2.44	1.90	1.03	0.78	0.09	0.47
1960	45,309,825	83.80	9.35	2.72	1.94	1.03	0.60	0.07	0.49
1961	64,071,623	82.43	10.71	2.75	1.99	1.03	0.49	0.07	0.53
1962	54,855,293	86.32	6.81	2.75	2.00	1.05	0.46	0.07	0.54
1963	64,437,900	85.19	7.51	2.72	2.39	1.06	0.41	0.06	0.66
1964	72,461,584	83.49	8.45	3.15	2.48	1.14	0.42	0.06	0.81
1965	89,549,093	81.78	9.91	3.44	2.43	1.12	0.42	0.08	0.82
1966	123,697,737	79.77	11.84	3.14	2.84	1.10	0.56	0.07	0.68
1967	162,189,211	77.29	14.48	3.08	2.79	1.13	0.66	0.03	0.54
1968	197,116,367	73.55	17.99	3.12	2.65	1.13	1.04	0.01	0.51
1969	176,389,759	73.48	17.59	3.39	3.12	1.43	0.67	0.01	0.31
1970	131,707,946	78.44	11.11	3.76	3.81	1.99	0.67	0.03	0.19
1971	186,375,130	79.07	9.98	4.00	3.79	2.29	0.58	0.05	0.24
1972	205,956,263	77.77	10.37	4.29	3.94	2.56	0.75	0.05	0.27
1973	178,863,622	82.07	6.06	4.54	3.55	2.45	1.00	0.06	0.27
1974	118,828,270	83.63	4.40	4.90	3.50	2.03	1.24	0.06	0.24
1975	157,258,676	85.20	3.67	4.64	3.26	1.73	1.19	0.17	0.14
1976	195,224,812	84.35	3.88	4.76	3.83	1.69	0.94	0.53	0.02
1977	187,393,084	83.96	4.60	4.79	3.53	1.62	0.74	0.75	0.01
1978	251,618,179	83.67	5.13	4.16	3.64	1.62	0.61	0.17	0.00
1979	300,475,510	83.72	6.94	3.83	2.78	1.80	0.56	0.35	0.02
1980	476,500,688	83.53	7.33	4.33	2.27	1.61	0.52	0.40	0.01
1981	491,017,139	84.74	5.41	5.04	2.32	1.80	0.49	0.40	0.00
1982	603,094,266	85.32	3.27	5.83	3.05	1.59	0.51	0.43	0.00
1983	958,304,168	85.13	3.32	6.28	2.86	1.55	0.66	0.16	0.04
1984r	951,318,448	85.61	2.26	6.57	2.93	1.58	0.85	0.19	0.00
1985r	1,200,127,848	85.25	2.23	6.59	3.06	1.49	1.20	0.18	0.00
1986	$1,707,117,112	85.02	2.56	6.00	3.00	1.57	1.44	0.41	0.00

r = revised

[1] Dollar volume for exchanges includes stocks, rights and warrants.
[2] Includes all exchanges not listed individually.

Source: SEC Form R-31

Special Block Distribution

In calendar year 1986, there were 12 special block distributions with a value of $661.4 million. Secondary distributions accounted for all of these special block distributions.

Table 20

SPECIAL BLOCK DISTRIBUTIONS REPORTED BY EXCHANGES

(Value In Thousands)

	Secondary Distributions			Exchange Distributions			Special Offerings		
		Shares			Shares			Shares	
Year	Number	Sold	Value	Number	Sold	Value	Number	Sold	Value
1944	94	4,097,298	$ 135,760	0	0	$ 0	87	1,053,667	$32,454
1945	115	9,457,358	191,961	0	0	0	79	947,231	29,878
1946	100	6,481,291	232,398	0	0	0	23	308,134	11,002
1947	73	3,961,572	124,671	0	0	0	24	314,270	9,133
1948	95	7,302,420	175,991	0	0	0	21	238,879	5,466
1949	86	3,737,249	104,062	0	0	0	32	500,211	10,956
1950	77	4,280,681	88,743	0	0	0	20	150,306	4,940
1951	88	5,193,756	146,459	0	0	0	27	323,013	10,751
1952	76	4,223,258	149,117	0	0	0	22	357,897	9,931
1953	68	6,906,017	108,229	0	0	0	17	380,680	10,486
1954	84	5,738,359	218,490	57	705,781	24,664	14	189,772	6,670
1955	116	6,756,767	344,871	19	258,348	10,211	9	161,850	7,223
1956	146	11,686,174	520,986	17	156,481	4,645	8	131,755	4,557
1957	99	9,324,599	339,062	33	390,832	15,855	5	63,408	1,845
1958	122	9,508,505	361,886	38	619,876	29,454	5	88,152	3,286
1959	148	17,330,941	822,336	28	545,038	26,491	3	33,500	3,730
1960	92	11,439,065	424,688	20	441,644	11,108	3	63,663	5,439
1961	130	19,910,013	926,514	33	1,127,266	58,072	2	35,000	1,504
1962	59	12,143,656	658,780	41	2,345,076	65,459	2	48,200	588
1963	100	18,937,935	814,984	72	2,892,233	107,498	0	0	0
1964	110	19,462,343	909,821	68	2,553,237	97,711	0	0	0
1965	142	31,153,319	1,603,107	57	2,334,277	86,479	0	0	0
1966	126	29,045,038	1,523,373	52	3,042,599	118,349	0	0	0
1967	143	30,783,604	1,154,479	51	3,452,856	125,404	0	0	0
1968	174	36,110,489	1,571,600	35	2,669,938	93,528	1	3,352	63
1969	142	38,224,799	1,244,186	32	1,706,572	52,198	0	0	0
1970	72	17,830,008	504,562	35	2,066,560	48,218	0	0	0
1972	229	82,365,749	3,216,126	26	1,469,686	30,156	0	0	0
1973	120	30,825,860	1,151,087	19	802,322	9,140	91	6,662,111	79,889
1974	45	7,512,200	133,838	4	82,200	6,836	33	1,921,755	16,805
1975	51	34,149,089	1,409,933	14	483,846	8,300	14	1,252,925	11,521
1976	44	20,588,432	517,546	16	752,600	13,919	22	1,475,842	18,459
1977	39	9,848,986	261,257	6	295,264	5,242	18	1,074,290	14,519
1978	37	15,233,141	569,487	3	79,000	1,429	3	130,675	1,820
1979	37	10,803,680	192,258	3	1,647,600	86,066	6	368,587	4,708
1980	44	24,979,045	813,542	2	177,900	5,101	4	434,440	7,097
1981	43	16,079,897	449,600	0	0	0	0	0	0
1982	76	40,024,988	1,284,492	0	0	0	3	717,000	11,112
1983	85	70,800,731	2,245,465	0	0	0	0	0	0
1984	23	21,180,207	680,543	0	0	0	0	0	0
1985	12	25,458,047	856,917	0	0	0	0	0	0
1986	12	16,747,273	$ 661,407	0	0	$ 0	0	0	$ 0

Source: NYSE and AMEX

Value and Number of Securities Listed on Exchanges

The market value of stocks and bonds listed on U.S. exchanges at the end of 1986 was $3.7 trillion, an increase of 11 percent over 1985. The market value of stocks (common and preferred), was $2.2 trillion, an increase of 13 percent during 1986. The value of listed bonds increased 9 percent. Stocks with primary listing on the New York Stock Exchange had a market value of $2.1 trillion and represented 97 percent of the value of common and preferred stocks listed on registered exchanges. Those listed on the American Stock Exchange accounted for almost all of the remaining three percent of the total and were valued at $70.3 billion, an increase of 11 percent over the previous year.

Table 21

SECURITIES LISTED ON EXCHANGES[1]

December 31, 1986

EXCHANGES	COMMON		PREFERRED		BONDS		TOTAL SECURITIES	
Registered:	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)	Number	Market Value (Million)
American	772	$ 63,459	117	$ 6,795	336	$ 19,634	1,225	$ 89,888
Boston	97	1,537	0	0	6	148	103	1,685
Cincinnati	4	186	3	59	7	99	14	324
Midwest	9	648	4	24	0	0	13	672
New York	1,477	2,079,195	717	49,316	3,513	1,447,023	5,707	3,575,534
Pacific	54	1,204	30	716	98	4,111	182	6,031
Philadelphia	20	383	23	1,794	42	2	85	2,179
Intermountain	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Spokane	33	11	0	0	0	0	33	11
Total	2,466	$2,146,603	894	$58,704	4,002	$1,471,017	7,362	$3,676,324
Includes Foreign Stocks:								
New York	59	$ 70,599	4	$ 148	98	$ 10,580	161	$ 81,327
American	51	22,503	4	682	5	203	60	23,388
Pacific	3	22	2	8	2	2	7	32
Total	113	$ 93,124	10	$ 838	105	$ 10,785	228	$ 104,747

N.A. = Not Available

[1] Excludes securities which were suspended from trading at the end of the year, and securities which because of inactivity had no available quotes.

Source: SEC Form 1392

Table 22
VALUE OF STOCKS LISTED ON EXCHANGES
(Billions of Dollars)

Dec 31	New York Stock Exchange	American Stock Exchange	Exclusively On Other Exchanges	Total
1938	$ 47.5	$ 10.8	.....	$ 58.3
1939	46.5	10.1	.....	56.6
1940	41.9	8.6	.....	50.5
1941	35.8	7.4	.....	43.2
1942	38.8	7.8	.....	46.6
1943	47.6	9.9	.....	57.5
1944	55.5	11.2	.....	66.7
1945	73.8	14.4	.....	88.2
1946	68.6	13.2	.....	81.8
1947	68.3	12.1	.....	80.4
1948	67.0	11.9	$3.0	81.9
1949	76.3	12.2	3.1	91.6
1950	93.8	13.9	3.3	111.0
1951	109.5	16.5	3.2	129.2
1952	120.5	16.9	3.1	140.5
1953	117.3	15.3	2.8	135.4
1954	169.1	22.1	3.6	194.8
1955	207.7	27.1	4.0	238.8
1956	219.2	31.0	3.8	254.0
1957	195.6	25.5	3.1	224.2
1958	276.7	31.7	4.3	312.7
1959	307.7	25.4	4.2	337.3
1960	307.0	24.2	4.1	335.3
1961	387.8	33.0	5.3	426.1
1962	345.8	24.4	4.0	374.2
1963	411.3	26.1	4.3	441.7
1964	474.3	28.2	4.3	506.8
1965	537.5	30.9	4.7	573.1
1966	482.5	27.9	4.0	514.4
1967	605.8	43.0	3.9	652.7
1968	692.3	61.2	6.0	759.5
1969	629.5	47.7	5.4	682.6
1970	636.4	39.5	4.8	680.7
1971	741.8	49.1	4.7	795.6
1972	871.5	55.8	5.6	932.7
1973	721.0	38.7	4.1	763.8
1974	511.1	23.3	2.9	537.3
1975	685.1	29.3	4.3	718.7
1976	858.3	36.0	4.2	898.5
1977	776.7	37.6	4.2	818.5
1978	822.7	39.2	2.9	864.8
1979	960.6	57.8	3.9	1,022.3
1980	1,242.9	103.5	2.9	1,349.2
1981	1,143.8	89.4	5.0	1,238.2
1982	1,305.4	77.6	6.8	1,389.7
1983	1,522.2	80.1	6.6	1,608.8
1984	1,529.5	52.0	5.8	1,587.3
1985	1,882.7	63.2	5.9	1,951.8
1986	$2,128.5	$ 70.3	$8.5	$2,205.3

Source: SEC Form 1392

Securities on Exchanges

As of September 30, 1987, a total of 7,909 securities, representing 3,145 issuers, were admitted to trading of securities exchanges in the United States. This compares with 7,891 issues, involving 3,133 issuers a year earlier. Over 5,600 issues were listed and registered on the New York Stock Exchange, accounting for 65.0 percent of the stock issues and 80.7 percent of the bond issues. Data below on "Securities Traded on Exchanges" involved some duplication since it includes both solely on dually listed securities.

Table 23
SECURITIES TRADED ON EXCHANGES

	Issuers	Stocks				Bonds[1]
		Temporarily Registered	Exempted	Unlisted	Total	
American	762	1,332	—	26	1,358	336
Boston	1,008	210	—	1,182	1,392	14
Chicago Board of Trade	5	1	—	5	6	—
Cincinnati	1,033	31	—	1,245	1,276	49
Intermountain	19	25	—	7	32	—
Midwest	1,191	353	—	1,344	1,697	35
New York	1,589	2,678	2	6	2,686	3,051
Pacific Coast	790	859	—	289	1,148	114
Philadelphia	807	291	—	889	1,180	172
Spokane	20	40	—	3	43	3

[1]Issuers exempted under Section 3(a)(12) of the Act, such as obligations of U.S. Government, the states, and cities, are not included in this table.

Table 24
IMMOBILIZATION TRENDS

	1987	1986	1985	1984	1983	1982
Book-entry Deliveries at DTC (in thousands)	78,000	66,700	55,800	48,000	50,000	37,000
Total Certificates Withdrawn from DTC (in thousands)	10,000	9,200	9,100	10,100	13,800	12,500
Book-entry Deliveries per Certificate Withdrawn	7.8	7.3	6.1	4.8	3.7	3.0

Certificate Immobilization

Book-entry deliveries continued to outpace physical deliveries in the settlement of securities transactions among depository participants. This tendency is illustrated in Table 24, IMMOBILIZATION TRENDS. The Table captures the relative significance of the mediums employed, in a ratio of book-entry deliveries to certificates withdrawn from DTC. The figures exclude municipal bearer bonds. In 1987, while the number of shares traded in U.S. markets increased by 32%, the total certificates withdrawn from DTC increased less than 10%, and the ratio of book-entry deliveries to certificates withdrawn continued to grow. In 1987, the ratio was over two and a half times the 1982 figure of 3.0 book-entry deliveries rendered for every certificate withdrawn.

1933 ACT REGISTRATIONS

Effective Registration Statements

During fiscal year 1987, 5,914 registration statements valued at $454.7 billion became effective. In fiscal year 1986, 5,925 statements, valued at $484.4 billion, became effective.

Table 25
EFFECTIVE REGISTRATIONS
(Millions of Dollars)

Fiscal Year	Total		Cash Sale for Account of Issuers			
	Number of Statements	Value	Common Stock and Other Equity[1]	Bonds, Debentures and Notes	Preferred Stock	Total
Fiscal Year Ended June 30						
1935[2]	284	$ 913	$ 188	$ 490	$ 28	$ 686
1936	689	4,835	531	3,153	252	3,936
1937	840	4,851	802	2,426	406	3,634
1938	412	2,101	474	666	209	1,349
1939	344	2,579	318	1,593	109	2,020
1940	306	1,787	210	1,112	110	1,432
1941	313	2,611	196	1,721	164	2,081
1942	193	2,003	263	1,041	162	1,466
1943	123	659	137	316	32	485
1944	221	1,760	272	732	343	1,347
1945	340	3,225	456	1,851	407	2,714
1946	661	7,073	1,331	3,102	991	5,424
1947	493	6,732	1,150	2,937	787	4,874
1948	435	6,405	1,678	2,817	537	5,032
1949	429	5,333	1,083	2,795	326	4,204
1950	487	5,307	1,786	2,127	468	4,381
1951	487	6,459	1,904	2,838	427	5,169
1952	635	9,500	3,332	3,346	851	7,529
1953	593	7,507	2,806	3,093	424	6,325
1954	631	9,174	2,810	4,240	531	7,381
1955	779	10,980	3,864	3,951	462	8,277
1956	906	13,096	4,544	4,123	539	9,206
1957	876	14,624	5,856	5,689	472	12,019
1958	813	18,490	5,998	6,857	427	13,282
1959	1,070	15,657	6,387	5,265	443	12,095
1960	1,426	14,367	7,280	4,224	253	11,737
1961	1,550	19,070	9,850	6,182	248	16,280
1962	1,844	19,547	11,521	4,512	253	16,286
1963	1,157	14,790	7,227	4,372	270	11,869
1964	1,121	16,860	10,006	4,554	224	14,784
1965	1,266	19,437	10,638	3,710	307	14,655
1966	1,523	30,109	18,218	7,061	444	25,723
1967	1,849	34,218	15,083	12,309	558	27,950
1968	2,417	54,076	22,092	14,036	1,140	37,268
1969	3,645	86,810	39,614	11,674	751	52,039
1970	3,389	59,137	28,939	18,436	823	48,198
1971	2,989	69,582	27,455	27,837	3,360	58,452
1972	3,712	62,487	26,518	20,127	3,237	49,882
1973	3,285	59,310	28,815	14,841	2,578	44,034
1974	2,880	58,924	19,811	20,997	2,274	43,082
1975	2,760	77,457	30,502	37,557	2,201	70,260
1976	2,813	87,733	37,115	29,373	3,013	69,501
Transition Quarter:						
July-Sept 1976	639	15,010	8,767	5,068	413	12,248
Fiscal Year ended September 30						
1977	2,915	92,579	47,116	28,028	2,426	77,568
1978[3]	3,037	85,043	25,330	23,251	2,128	50,709
1979	3,112	77,400	22,714	28,894	1,712	53,320
1980	3,402	110,583	33,076	42,764	2,879	78,719
1981	4,326	144,132	49,276	40,163	2,505	91,944
1982	4,846	164,455	50,486	63,950	3,939	118,375
1983	5,503	240,058	77,403	80,718	9,339	167,460
1984	5,087	209,866	66,571	74,136	4,984	145,691
1985	4,913	287,851	72,013	117,178	6,999	196,190
1986 r	5,825	484,383	93,470	256,360	12,169	363,998
1987 p	5,914	454,714	96,988	236,643	13,891	347,522
Cumulative Total	102,435	$3,289,801	$1,037,834	$1,309,012	$95,224	$2,442,070

p = preliminary
r = revised

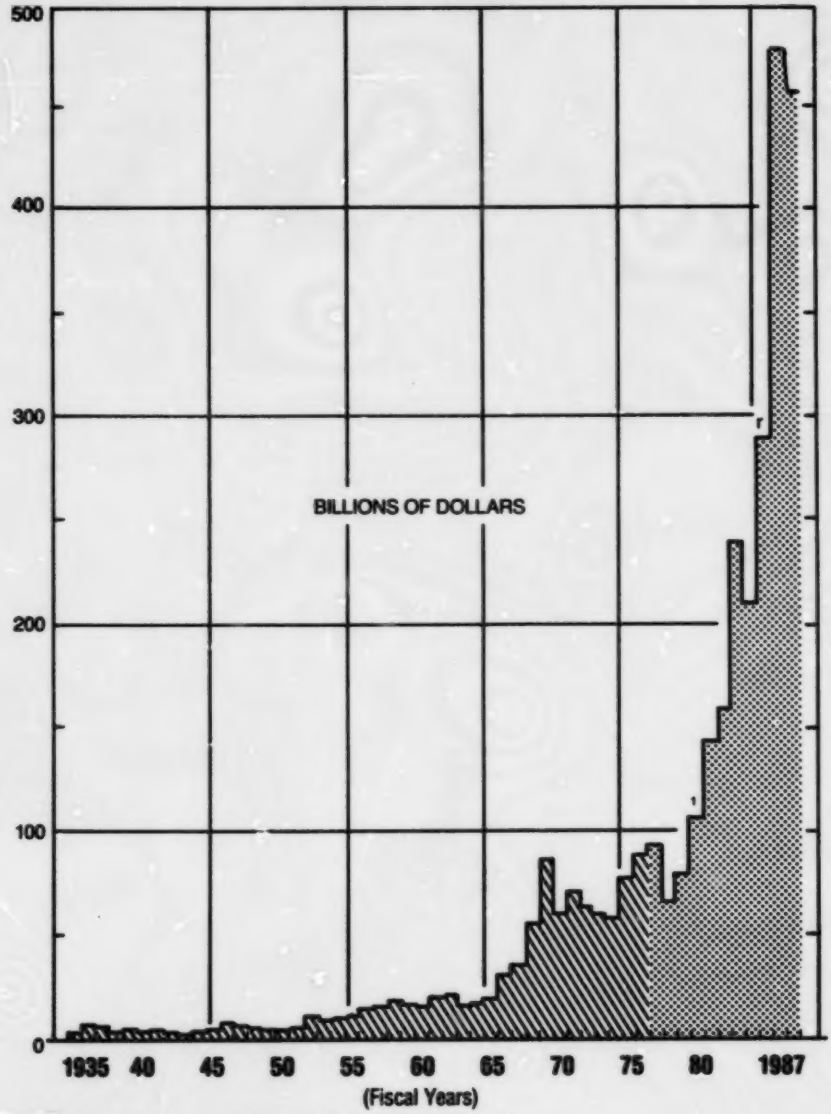
[1]Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included.
[2]For 10 months ended June 30, 1935.
[3]The adoption of Rule 24f-2 (17 CFR 270.24f-2) effective November 3, 1977 made it impossible to report the dollar value of securities registered by investment companies.

Note: The Total Cash Sale differs from earlier presentations due to changes in rounding procedures.

Source: 1933 Act Registration Statements

Table 26

Securities Effectively Registered With S.E.C.
1935 – 1987



In 1977 Fiscal Year End Changed From June To September

Data For Transition Quarter July-September 1976 Not Shown On Charts:
Number Of Registrations 639

[1]Does Not Include Investment Companies As Of 1/1/78 Due To Rule Change

r = Revised p = Preliminary

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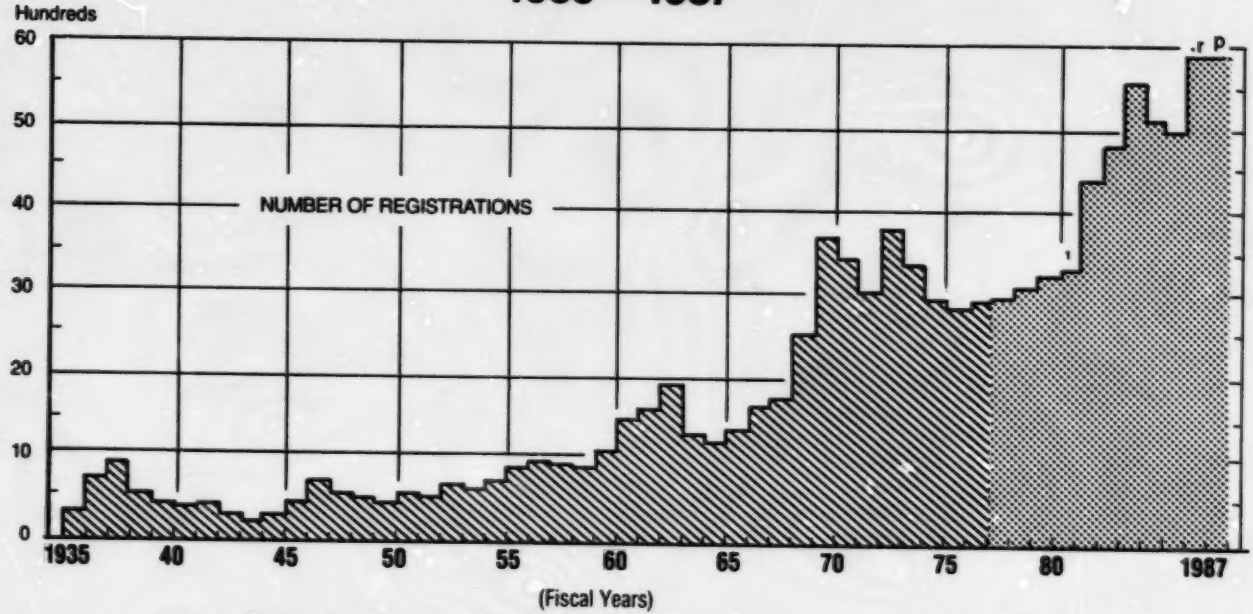
Table 27

Securities Effectively Registered With S.E.C.
1935 – 1987



In 1977 Fiscal Year End Changed From June To September

Data For Transition Quarter July-September 1976 Not Shown On Charts:
Number Of Registrations 639

[1]Does Not Include Investment Companies As Of 1/1/78 Due To Rule Change

r = Revised p = Preliminary

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Purpose and Type of Registration

Effective registrations for cash sale for the account of issuers in fiscal year 1987 amounted to $347.5 billion, a decline of 5 percent from fiscal year 1986's total of $364.0 billion. Of this amount, $106.9 billion were registrations for immediate, cash sale, an increase of $15.2 billion (17 percent) from fiscal year 1986's figure of $91.8 billion.

Of the $106.9 billion, debt securities accounted for $48.7 billion (46 percent), common stock and other equity accounted for $49.7 billion (46 percent) and preferred stock totalled $8.6 billion (8 percent).

Delayed and extended cash sales registered for the account of the issuer totalled $240.6 billion or 53 percent of all registrations. Of registrations for delayed sales, domestic securities accounted for $195.9 billion while foreign securities accounted for $10.6 billion. Registrations for extended sales came to $34.2 billion.

Securities registered for the account of the issuer for other than cash sales (e.g., for exchange offers) amounted to $88.4 billion or 19 percent of all registrations. Registrations of securities for secondary offerings amounted to $18.8 billion or 4 percent of the value of all registrations.

Registrations of all types were valued at $454.7 billion in fiscal year 1987. Of this total, $251.2 billion in bonds and other debt securities were registered. Another $181.2 billion of common stock and other equity were registered and preferred stock registrations totalled $22.3 billion. Of the $251.2 billion registered in debt, $48.7 billion (19 percent) were registered for primary, immediate cash sale and registrations for primary, delayed and extended cash sales accounted for $188.0 billion (75 percent). The total for preferred stock ($22.3 billion) included $13.9 billion registered for issuers for cash sale, $7.3 billion registered for issuers for other transactions and $1.2 billion registered for secondary offerings. Of the $181.2 billion of registrations for common stock and other equity securities, registrations for issuers for cash sale came to $97.0 billion, other registrations for issuers totalled $75.3 billion and registrations for secondary offerings were valued at $8.9 billion.

Table 28
EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY: FISCAL YEAR 1986r
(Millions of Dollars)

Purpose of Registrations	Type of Security			
	Total	Bonds, Debentures and Notes	Preferred Stock	Common Stock and Other Equity[1]
All Registrations (Estimated Value)	$484,383	$272,059	$20,550	$191,774
Account of Issuer for Cash Sale	363,998	258,360	12,168	93,470
Immediate Offering	91,756	48,874	8,231	36,651
Delayed and Extended Cash Sale	272,242	211,486	3,937	56,819
Domestic Delayed	220,192	202,868	3,856	13,868
Foreign Delayed	8,966	8,816	0	150
Extended	43,084	2	281	42,801
Account of Issuer for Other Than Cash Sale	104,752	9,841	7,334	87,577
Secondary Offerings	$ 15,633	$ 3,858	$ 1,048	$ 10,727

r = revised

[1]Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included.

Source: 1933 Act Registration Statements

Table 29
EFFECTIVE REGISTRATIONS BY PURPOSE AND TYPE OF SECURITY: FISCAL YEAR 1987p
(Millions of Dollars)

Purpose of Registrations	Type of Security			
	Total	Bonds, Debentures and Notes	Preferred Stock	Common Stock and Other Equity[1]
All Registrations (Estimated Value)	$454,714	$251,215	$22,349	$181,150
Account of Issuer for Cash Sale	347,522	236,643	13,891	96,986
Immediate Offering	106,939	48,686	8,577	49,896
Delayed and Extended Cash Sale	240,583	187,977	5,314	47,292
Domestic Delayed	195,858	178,411	4,362	13,085
Foreign Delayed	10,552	9,566	0	986
Extended	34,173	0	952	33,221
Account of Issuer for Other Than Cash Sale	88,406	5,873	7,280	75,273
Secondary Offerings	$ 18,786	$ 8,699	$ 1,198	$ 8,889

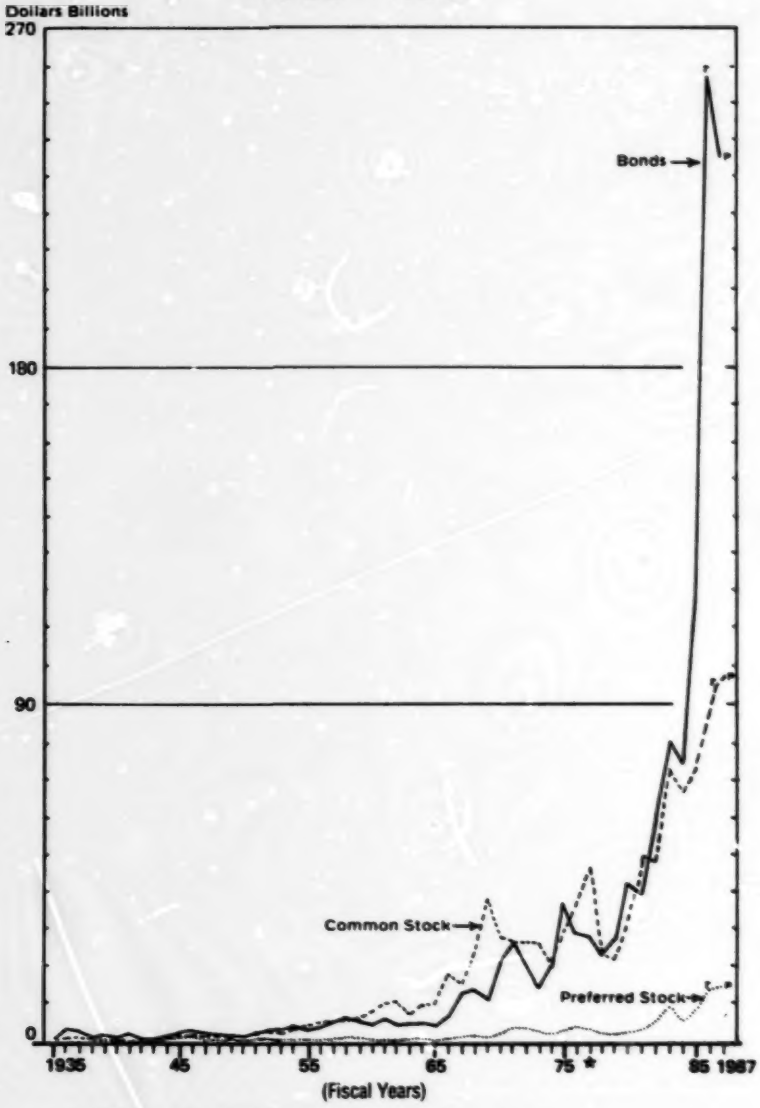
r = revised

[1]Includes warrants, shares of beneficial interest, certificates of participation and all other equity interests not elsewhere included.

Source: 1933 Act Registration Statements

Table 30

Effective Registrations
Cash Sale For Account Of Issuers
1935 – 1987



★ In 1977 Fiscal Year End Changed from June to September.
Data for Transition Quarter July-September 1976 Not Shown on Chart.
Bonds $5.1 Billion, Preferred Stock $.4 Billion, Common Stock $6.8 Billion.

r = Revised
p = Preliminary

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Regulation A Offerings

During fiscal year 1987, 100 offering statements for proposed offerings under Regulation A were processed and cleared.

Table 31

CASH OFFERINGS UNDER REGULATION A

	Fiscal 1986	Fiscal 1987
Size: (000's)		
$ 500 or Less	34	46
501-1,000	26	27
1,001-1,500	44	27
Total	104	100
Underwriters:		
Used	10	16
Not Used	94	84
Total	104	100
Offerors:		
Issuing Companies	104	100
Stockholders	0	0
Issuer & Stockholders Jointly	0	0
Total	104	100

Table 32
TYPES OF PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

Persons Subject to Acts Constituting, and Basis for, Enforcement Action	Sanction
Broker-dealer, municipal securities dealer, government securities dealer, transfer agent, investment adviser or associated person	
Willful violation of securities laws or rules; aiding or abetting such violation; failure reasonably to supervise others; willful misstatement or omission in filing with the Commission; conviction of or injunction against certain crimes or conduct.	Censure or limitation on activities; revocation, suspension or denial of registration; bar or suspension from association (1934 Act, Sections 15(b)(4)-(6), 15(c)(1)-(2), 15B(c)(2)-(5), 17A(c)(3); Advisers Act, Section 203(e)-(f)).
Registered securities association	
Violation of or inability to comply with the 1934 Act, rules thereunder, or its own rules; unjustified failure to enforce compliance with the foregoing or with rules of the Municipal Securities Rulemaking Board by a member or person associated with a member.	Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, Section 19(h)(1)).
Member of registered securities association, or associated person	
Entry of Commission order against person pursuant to 1934 Act, Section 15(b); willful violation of securities laws or rules thereunder or rules of Municipal Securities Rulemaking Board; effecting transaction for other person with reason to believe that person was committing violations of securities laws.	Suspension or expulsion from the association; bar or suspension from association with member of association (1934 Act, Section 19(h) (2)-(30)).
National securities exchange	
Violation of or inability to comply with 1934 Act, rules thereunder or its own rules; unjustified failure to enforce compliance with the foregoing by a member or person associated with a member.	Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, Section 19(h)(1)).
Member of national securities exchange, or associated person	
Entry of Commission order against person pursuant to 1934 Act, Section 15(b); willful violation of securities laws or rules thereunder, effecting transaction for other person with reason to believe that person was committing violations of securities laws.	Suspension or expulsion from exchange; bar or suspension from association with member (1934 Act, Section 19(h)(2)-(3)).
Registered clearing agency	
Violation of or inability to comply with 1934 Act, rules thereunder, or its own rules; failure to enforce compliance with its own rules by participants.	Suspension or revocation of registration; censure or limitation of activities, functions, or operations (1934 Act, Section 19(h)(1)).
Participant in registered clearing agency	
Entry of Commission order against participant pursuant to 1934 Act, Section 15(b)(4); willful violation of clearing agency rules; effecting transaction for other person with reason to believe that person was committing violations of securities laws.	Suspension or expulsion from clearing agency (1934 Act, Section 19(h)(2)).

Securities information processor	
Violation of or inability to comply with provisions of 1934 Act or rules thereunder.	Censure or limitation of activities; suspension or revocation of registration (1934 Act, Section 11A(b)(6)).
Any person	
Willful violation of 1933 Act, 1934 Act, Investment Company Act or rules thereunder; aiding or abetting such violation; willful misstatement in filing with Commission.	Temporary or permanent prohibition against serving in certain capacities with registered investment company (Investment Company Act, Section 9(b)).
Officer or director of self-regulatory organization	
Willful violation of 1934 Act, rules thereunder or the organization's own rules; willful abuse of authority or unjustified failure to enforce compliance.	Removal from office or censure (1934 Act, Section 19(h)(4)).
Principal of broker-dealer	
Engaging in business as a broker-dealer after appointment of SIPC trustee.	Bar or suspension from being or becoming associated with a broker-dealer (SIPA, Section 10(b)).
1933 Act registration statement	
Statement materially inaccurate or incomplete.	Stop order refusing to permit or suspending effectiveness (1933 Act, Section 8(d)).
Issuer subject to Sections 12, 13, 14 or 15(d) of the 1934 Act or associated person	
Failure to comply with such provisions or having caused such failure by an act or omission that person knew or should have known would contribute thereto.	Order directing compliance or steps effecting compliance (1934 Act, Section 15(c)(4)).
Securities registered pursuant to Section 12 of the 1934 Act	
Noncompliance by issuer with 1934 Act or rules thereunder.	Denial, suspension of effective date, suspension or revocation of registration; prohibition against trading in securities when registration suspended or revoked (1934 Act, Section 12(j)).
Public interest requires trading suspension.	Summary suspension of over-the-counter or exchange trading (1934 Act, Section 12(k)).
Registered investment company	
Failure to file investment Company Act registration statement or required report; filing materially incomplete or misleading statement or report.	Suspension or revocation of registration (Investment Company Act, Section 8(e)).
Company has not attained $100,000 net worth 90 days after 1933 Act registration statement became effective.	Stop order under 1933 Act; suspension or revocation of registration (Investment Company Act, Section 14(a)).
Attorney, accountant, or other professional or expert	
Lack of requisite qualifications to represent others; lacking in character or integrity; unethical or improper professional conduct; willful violation of securities laws or rules; or aiding and abetting such violation.	Permanent or temporary denial of privilege appearing or practicing before the Commission (17 CFR Section 201.2(e)(1)).

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Attorney suspended or disbarred by court; expert's license revoked or suspended; conviction of a felony or of a misdemeanor involving moral turpitude.	Automatic suspension from appearance or practice before the Commission (17 CFR Section 201.2(e)(2)).
Permanent injunction against or finding of securities violation in Commission-instituted action; finding of securities violation by Commission in administrative proceedings.	Temporary suspension from practicing; censure; permanent or temporary disqualification from practicing before the Commission (17 CFR Section 201.2(e)(3)).
Member of Municipal Securities Rulemaking Board	
Wilful violation of 1934 Act, rules thereunder, or rules of the Board; abuse of authority.	Censure or removal from office (1934 Act, Section 15B(c)(8)).

CIVIL PROCEEDINGS IN FEDERAL DISTRICT COURTS

Persons Subject to Acts Constituting, and Basis for, Enforcement Action	Sanction
Any person	
Engaging in or about to engage in acts or practices violating securities laws, rules or orders thereunder (including rules of a registered self-regulatory organization.	Injunction against acts or practices which constitute or would constitute violations (plus other equitable relief under court's general equity powers) (1933 Act, Section 20(b); 1934 Act, Section 21(d); Holding Company Act, Section 18(f); Investment Company Act, Section 42(e); Advisers Act, Section 209(e); Trust Indenture Act, Section 321).
Noncompliance with provisions of the law, rule, or regulation under 1933, 1934, or Holding Company Act, order issued by Commission, rules of a registered self-regulatory organization, or undertaking in a registration statement.	Writ of mandamus, injunction, or order directing compliance (1933 Act, Section 20(c); 1934 Act, Section 21(e); Holding Company Act, Section 18(g)).
Trading while in possession of material non-public information in a transaction on an exchange or from or through a broker-dealer (and transaction not part of a public offering), or aiding and abetting such trading.	Maximum civil penalty: three times profit gained or loss avoided as a result of transaction (1934 Act, Section 21(d)).
Securities Investor Protection Corporation	
Refusal to commit funds or act for the protection of customers.	Order directing discharge of obligations and other appropriate relief (SIPA, Section 7(b)).
National securities exchange or registered securities association	
Failure to enforce compliance by members or persons associated with its members with the 1934 Act, rules or orders thereunder, or rules of the exchange or association.	Writ of mandamus, injunction or order directing such exchange or association to enforce compliance (1934 Act, Section 21(e)).
Registered clearing agency	
Failure to enforce compliance by its participants with its own rules.	Writ of mandamus, injunction or order directing clearing agency to enforce compliance (1934 Act, Section 21(e)).
Issuer subject to reporting requirements	
Failure to file reports required under Section 15(d) of 1934 Act.	Forfeiture of $100 per day (1934 Act, Section 32(b)).

Registered investment company	
Name of company or of security issued by it deceptive or misleading.	Injunction against use of name (Investment Company Act, Section 36(d)).
Officer, director, member of advisory board, adviser, depositor, or underwriter of investment company	
Engage in act or practice constituting breach of fiduciary duty involving personal misconduct.	Injunction against acting in certain capacities for investment company and other appropriate relief (Investment Company Act, Section 36(a)).

CRIMINAL PROSECUTION BY DEPARTMENT OF JUSTICE

Basis for Enforcement Action	Sanction or Relief
Any person	
Willful violation of securities laws or rules thereunder; willful misstatement in any document required to be filed by securities laws or rules; willful misstatement in any document required to be filed by self-regulatory organization in connection with an application for membership or association with member.	Maximum penalties: $250,000 fine and five years imprisonment; an exchange or a public-utility holding company may be fined up to $500,000 (1933 Act, Sections 20(b), 24; 1934 Act, Sections 21(d), 32(a); Holding Company Act, Sections 18(f), 29; Trust Indenture Act, Sections 321, 325; Investment Company Act, Sections 42(e), 49; Advisers Act, Sections 209(e), 217; 18 U.S.C. 3551-3586; 3623).
Persons who engage in foreign corrupt practices	
Any issuer (which has securities subject to reporting requirements of the 1934 Act) which violates Section 30A(a) of the 1934 Act.	Maximum penalty: $1,000,000 fine (1934 Act, Section 32(c)(1)).
Any officer or director of an issuer, of any stockholder acting on behalf of such issuer who willfully violates Section 30A(a) of the 1934 Act.	Maximum penalty: $250,000 fine and five years imprisonment (1934 Act, Section 32(c)(2); 18 U.S.C. 3551-3586; 3623).
Any employee, or agent subject to the Jurisdiction of the United States of an issuer found to have violated Section 30A(a) of the 1934 Act, who willfully carried out the act or practice constituting such violation.	Maximum penalty: $250,000 fine and five years imprisonment (1934 Act, Section 32(c)(3); 18 U.S.C. 3551-3586; 3623).

*Statutory references are as follows: "1933 Act," the Securities Act of 1933; "1934 Act," the Securities Exchange Act of 1934; "Investment Company Act," the Investment Company Act of 1940, "Advisers Act," the Investment Advisers Act of 1940; "Holding Company Act," the Public Utility Holding Company Act of 1935; "Trust Indenture Act," the Trust Indenture Act of 1939; and "SIPA," the Securities Investor Protection Act of 1970.

Table 33
Fiscal 1987 Enforcement Cases
Listed by Program Area

(Each case has been included in only one category listed below, even though many cases involve multiple allegations and may fall under more than one category.)

Program Area—Broker-Dealer: Back Office

Name of Case	Date Filed	Release No.
In the Matter of Benjamin J. Taormina, et al.	021087	SIPA 138
In the Matter of Citiwide Securities Corp., et al.	121286	34-23865
In the Matter of Kc'y N. Trimble	032587	34-24289
In the Matter of Brodie Securities Inc., et al.	032087	34-24238
In the Matter of Mary Kata	062987	34-24660
In the Matter of Ruth Elaine Berry	062987	34-24659
In the Matter of Benjamin B. Reuben, et al.	050487	34-24421
In the Matter of Jana Kay Jones, et al.	061887	34-24602
In the Matter of Michael Davidoff	040787	34-24305
In the Matter of Bryan Funding Inc.	060287	34-24879
In the Matter of Setrag Mooradian	092387	34-24837
SEC v. Benjamin B. Reuben	043087	LR-11426
SEC v. Michael Davidoff	040787	LR-11380
SEC v. Ira S. Schwartz	091787	LR-11542
SEC v. Broadhollow Funding Corp.	092187	LR-11556
SEC v. Roy E. Kraebel	072887	LR-11515
SEC v. Elvyn Q. Evans, et al.	060387	NONE

Program Area—Broker-Dealer: Fraud Against Customer

Name of Case	Date Filed	Release No.
In the Matter of David A. Collins	121686	34-23699
In the Matter of John F. Nappy	112586	34-23640
In the Matter of Beacon Financial Group, Inc., et al.	021787	34-24107
In the Matter of John M. Carpenter	022487	34-24121
In the Matter of Advest, Inc., et al.	020987	34-24071
In the Matter of Richard Lyle Anderson	010987	34-23972
In the Matter of Russell A. Phipps	022987	34-24140
In the Matter of Gennaro Maffei	020987	34-24075
In the Matter of Ellen Zivitz	020987	34-24074
In the Matter of Lawrence Cianchetta	020987	34-24091
In the Matter of Brooks, Weinger, Robbins & Leeds, Inc.	020987	34-24073
In the Matter of William J. Langheld	011387	34-23899
In the Matter of Gary M. Wortman	032387	34-24247
In the Matter of Hewitt, Orr & Jones, Inc., et al.	031287	NONE
In the Matter of George G. Mead	041387	34-24338
In the Matter of Ronnie R. Ewton	041387	34-24336
In the Matter of Timothy R. Murphy	041387	34-24339
In the Matter of Nicholas B. Wallace	041387	34-24337
In the Matter of Thomas F. Sauders	041387	34-24340
In the Matter of Charles W. Stretcher	061387	34-24588
In the Matter of Henry A. Pawlik	061087	34-24588
In the Matter Robert Tassinari	050787	34-24439

Program Area—Broker-Dealer: Fraud Against Customer

Name of Case	Date Filed	Release No.
In the Matter of Robert L. Bevill	062987	34-24656
In the Matter of Alan M. Piedmonte	061187	34-24784
In the Matter of Kim D. Rust	060387	34-24688
In the Matter of Jon R. Brittenum	062187	34-24930
In the Matter of Kenneth S. Shashoua	060387	34-24688
In the Matter of G. C. George Securities, Inc., et al.	060387	34-24689
In the Matter of Gordon Sargent	062987	34-24845
In the Matter of Clyde B. Fitchford, Jr.	062287	34-24933
SEC v. John F. Nappy	111386	LR-11295
SEC v. EBS Brokerage Services Inc., et al.	031387	LR-11389
SEC v. Brooks, Weinger, Robbins & Leeds, Inc., et al.	012887	LR-11361
SEC v. Cumberland, Levine & Co., Inc., et al.	021387	LR-11488
SEC v. Day L. Daniels, Jr., et al.	091787	LR-11553
SEC v. Gary M. Wozniak	060887	LR-11535
SEC v. Kenneth S. Shashoua	060887	LR-11570

Program Area—Broker-Dealer: Other

Name of Case	Date Filed	Release No.
SEC v. M. J. Coen	093087	LR-11584
In the Matter of Marc D. Shiner, et al.	120386	34-23982
In the Matter of Vincent Forma	021387	34-24089
In the Matter of Robert Beers	020987	34-24076
In the Matter of Walsh Greenwood & Co., et al.	121886	34-23981
In the Matter of Barry Gnason	030387	34-24160
In the Matter of Ann Llewellyn	032587	34-24258
In the Matter of David J. Decker	011387	34-23998
In the Matter of Dean Witter Reynolds Inc.	022787	34-24143
In the Matter of David Davoudpour	042087	34-24371
In the Matter of Comiteau, Levine & Co., Inc., et al.	061887	34-24609
In the Matter of Martin I. Sapoznick	040187	34-24287
In the Matter of Marvin Hamburger	041087	34-24319
In the Matter of William M. DeArman	072287	34-24731
In the Matter of Garran Dee Barker	070787	34-24676
In the Matter of Gabriel Rodriguez	080887	34-24779
In the Matter of Carl David Hamilton	070887	34-24677
SEC v. Ranbir Sahni	101586	LR-11277
SEC v. William M. DeArman	071487	LR-11498

Program Area—Broker-Dealer: Stock Loan

Name of Case	Date Filed	Release No.
In the Matter of Shearson Lehman Brothers, Inc.	061587	34-24595
SEC v. John Toal	051487	LR-11456

Program Area—Contempt-Civil

Name of Case	Date Filed	Release No.
SEC v. Jason W. Smith, et al.	022687	LR-11387
SEC v. Arthur N. Economou	100886	NONE
SEC v. Emil Leiner	062987	LR-11528
SEC v. Robert A. Dilanni	090387	LR-11530
SEC v. Milton Marks, et al.	090487	LR-11437
SEC v. The Royal Group Ltd., et al.	091087	LR-11535
SEC v. Mid America Energy, et al.	083087	NONE
SEC v. Alvin R. Broerman	070887	LR-11399
SEC v. Joseph Klein	070887	LR-11484

Program Area—Contempt-Criminal

Name of Case	Date Filed	Release No.
U.S. ex rel. SEC v. David R. Yeaman, et al.	110786	LR-11282
U.S. ex rel. SEC v. Marvin Hamburger, et al.	032487	LR-11375
U.S. ex rel. SEC v. Arthur N. Economou	100886	NONE
U.S. ex rel. SEC v. Marshall A. Zolp	050787	LR-11433

Program Area—Corporate Control: Tender Offers

Name of Case	Date Filed	Release No.
In the Matter of Allied Stores Corp., et al.	062987	34-24727
SEC v. N. Norman Muller	052887	LR-11443
SEC v. Paul David Hamlinger	071887	LR-11504
SEC v. Lenard D. Cash, Jr., et al.	092587	LR-11623

Program Area—Delinquent Filings: Forms 3 & 4

Name of Case	Date Filed	Release No.
SEC v. Samuel E. Beall, III	010587	LR-11326
SEC v. Stefan L. Geiringer	010587	LR-11326
SEC v. John F. Shanley	010587	LR-11326
SEC v. J. Ted Corham, et al.	071487	LR-11497

Program Area—Delinquent Filings: Issuer Reporting

Name of Case	Date Filed	Release No.
SEC v. International Capital Corp.	121686	LR-11309
SEC v. Leadership Properties, Inc.	122986	LR-11323
SEC v. Detroit Texas Gas Gathering Co.	022487	LR-11361
SEC v. Northstar Minerals, Inc.	031287	LR-11368
SEC v. Alenco, Ltd.	032087	LR-11374
SEC v. The Rollie Co.	033187	LR-11387
SEC v. American Land Co., et al.	052987	LR-11443

Program Area—Delinquent Filings: Issuer Reporting

Name of Case	Date Filed	Release No.
SEC v. Republic Resources, Inc.	041787	LR-11408
SEC v. Unique Mobility Inc.	050187	LR-11420
SEC v. U.S. Video Vending Corp.	062387	LR-11470
SEC v. Capital Enterprises, Inc.	062287	LR-11548
SEC v. Centennial Acquisitions, Inc.	062287	LR-11549
SEC v. Coastal Funding Corp.	062287	LR-11550
SEC v. Enciber Inc.	062287	LR-11551
SEC v. Fintech Inc.	062287	LR-11552
SEC v. Guide Energy Inc.	062287	LR-11553
SEC v. United Educators Inc., et al.	070987	LR-11484
SEC v. Eurocar Imports Corp.	081087	LR-11508
SEC v. Stephan E. Hann	082587	LR-11578

Program Area—Fraud Against Regulated Entities

Name of Case	Date Filed	Release No.
SEC v. Bruce B. Paul	093087	LR-11579

Program Area—Insider Trading

Name of Case	Date Filed	Release No.
In the Matter of David S. Brown	100986	34-23696
In the Matter of Ivan F. Boesky	111486	34-23602
In the Matter of Randall D. Cecola	122286	34-23919
In the Matter of Robert Salsbury	012187	34-24019
In the Matter of Martin A. Siegel	021387	34-24096
In the Matter of Bernhard Mair	031387	34-24499
In the Matter of Robert D'Elia, et al.	032087	34-24295
In the Matter of Kidder, Peabody & Co., Inc.	080487	34-24543
SEC v. James F. Flaherty, Jr.	101486	LR-11254
SEC v. David S. Brown	100986	LR-11246
SEC v. Ilan K. Reich	100986	LR-11246
SEC v. Alfred E. Kopelmann, II, et al.	102386	LR-11276
SEC v. Ivan F. Boesky	111486	LR-11288
SEC v. Randall D. Cecola	122286	LR-11313
SEC v. Alfred Elliott	123086	LR-11330
SEC v. Anthony A. DePalma	123086	LR-11330
SEC v. Melvin H. Pomerantz	121186	LR-11305
SEC v. Michael H. David	121086	LR-11334
SEC v. Samuel M. Akaler, et al.	122386	LR-11325
SEC v. Martin A. Siegel	021387	LR-11364
SEC v. Nahum Vaskevitch	031187	LR-11365
SEC v. Israel G. Grossman, et al.	021787	LR-11369
SEC v. Robert Salsbury	010787	NONE
SEC v. William Adams, et al.	051387	LR-11439
SEC v. Hendrix R. Bull	040787	LR-11395

Program Area—Insider Trading

Name of Case	Date Filed	Release No.
SEC v. John Naylor Clark, III, et al.	060887	LR-11440
SEC v. Kidder, Peabody & Co., Inc.	080487	LR-11452
SEC v. Russell S. Douglas	060887	LR-11479
SEC v. Marvin H. Ingram	062387	LR-11482
SEC v. Robert D'Elia, et al.	072887	LR-11489
SEC v. Ira Michael Pelton, et al.	081087	LR-11501
SEC v. Dennis Gillette	072787	LR-11502

SEC v. Albert Tate, et al.	071487	LR-11485
SEC v. Armin Kaufman	090987	LR-11529
SEC v. John M. Cochran	092887	LR-11572
SEC v. Charles R. Davis, et al.	091787	LR-11658

Program Area—Investment Adviser

Name of Case	Date Filed	Release No.
In the Matter of Harmon Financial Management, et al.	120386	IA-1050
In the Matter of Lance Brofman	100286	IA-1044
In the Matter of Institutional Capital Growth, Inc., et al.	010287	IA-1051
In the Matter of Cabot Money Management, Inc., et al.	032387	IA-1063
In the Matter of Michael David Marant	020587	IA-1056
In the Matter of Staton Investments, Inc., et al.	011287	IA-1053
In the Matter of The Opportunity Prospector, Inc., et al.	022387	IA-1059
In the Matter of Joseph L. Uary	040387	IA-1065
In the Matter of Milton Adams Corey	051487	IA-1069
In the Matter of Raymond S. Ficara, Sr.	051187	IA-1068
In the Matter of Stiles-Lane & Associated, Inc., et al.	081087	IA-1075
In the Matter of Max Edward Zavanelli, et al.	081787	IA 1077
In the Matter of Alfred S. Bearman, et al.	092387	IA 1082
In the Matter of Hutson Management Co.	081787	IA 1078
In the Matter of George S. Goldner	081487	IA-1076
In the Matter of Barry Zislin	092987	IA 1084
In the Matter of John Martone	093087	IA 1089
SEC v. Robert A. Dilanni	072787	LR-11500
SEC v. First Wilshire Securities Management, Inc., et al.	072387	LR-11493

Program Area—Investment Company

Name of Case	Date Filed	Release No.
In the Matter of Thomas W. Buckingham	100286	IC-15542
In the Matter of Paul Guilden	021387	IC-15578
In the Matter of David Lubert	021387	IC-15577
In the Matter of Joseph Plastader, et al.	021287	IC-15575
In the Matter of JHM Management, Inc., et al.	093087	IC-16021
SEC v. Quillin Porter, et al.	052687	LR-11448

Program Area—Issuer Financial Disclosure

Name of Case	Date Filed	Release No.
In the Matter of West Coast Hair Products	083487	AAER 147
In the Matter of Pre-Paid Legal Services, Inc.	122286	AAER 121
In the Matter of Marsh & McLennan Co., Inc.	012287	AAER 124
In the Matter of Continental Illinois Corp.	022787	AAER 129
In the Matter of First Chicago Corp.	081087	AAER 134
In the Matter of Benny Aguirre, et al.	080287	34-24535
In the Matter of Leo D. Sye	080287	AAER 137
In the Matter of Weepercorp	051887	AAER 132
In the Matter of Universal Money Centers, Inc.	082687	AAER 156
In the Matter of Texas Commerce Bancshares, Inc.	081787	AAER 146
In the Matter of DeLaurentiis Entertainment Group, Inc.	081087	AAER 144
In the Matter of Quantum Financial Services, Inc.	012787	33-6686
In the Matter of Human Edge	092587	AAER 154
In the Matter of Huber, Erickson & Butler, et al.	101086	AAER 115
In the Matter of KMG Main Hurdman	032587	AAER 129
In the Matter of Stephen Kutz	012887	AAER 127
In the Matter of Marvin D. Haney	012887	AAER 126
In the Matter of William D. Sauers	041387	34-24331
In the Matter of C. O'Neil Rasmussen	093087	AAER 161
In the Matter of Myron K. Berryman	090387	AAER 160
In the Matter of Richard S. Gilman	092987	AAER 159
PRIVATE PROCEEDING	080487	NONE
SEC v. Bank & Co., Inc.	120186	LR-11302
SEC v. Balanced Financial Management, Inc., et al.	101586	AAER 117
SEC v. Grant Thornton, et al.	101686	AAER 118
SEC v. CoElco, Ltd., et al.	120886	LR-11315
SEC v. Robert E. DeBiasse, et al.	111386	AAER 119
SEC v. Paul T. Van Winkle, et al.	031387	LR-11373
SEC v. Dorothy M. Conway, et al.	012287	LR-11339
SEC v. Electro-Catheter Corp., et al.	030487	LR-11347

SEC v. Storage Technology Corp.	012787	AAER 135
SEC v. Almada, Inc., et al.	060587	LR-11462
SEC v. Human Edge	062287	AAER 136
SEC v. West Coast Hair Products, et al.	040987	LR-11388
SEC v. Jerold Mavkowitz, et al.	040987	AAER 140
SEC v. Edward V. Gallagher, et al.	062587	LR-11471
SEC v. Windsor Holdings Corp., et al.	060287	AAER 138
SEC v. Robert D. Mowry, et al.	051987	LR-11436
SEC v. Earl Brown, et al.	060587	LR-11453
SEC v. Anthony Peter Strangis, et al.	060187	LR-11539
SEC v. Donald E. Brown	062287	AAER 162
SEC v. Frederick Hallcop, et al.	072487	AAER 149
SEC v. Harry H. McFillen, et al.	060287	AAER 157
SEC v. George W. Atkinson, et al.	060487	LR-11567
SEC v. Kappo Corp.	062587	LR-11589
SEC v. Texscan Corp., et al.	062887	AAER 164
SEC v. Financial Corp. of America	092187	AAER 153

Program Area—Issuer Financial Disclosure

Name of Case	Date Filed	Release No.
SEC v. Michael Clingar, et al.	072787	AAER 142
SEC v. Cardillo Travel Systems Inc., et al.	072287	LR-11492
SEC v. Robert D. Widergren	081287	LR-11511
SEC v. Pros International, Inc., et al.	082887	AAER 148
SEC v. Westmore International Inc., et al.	092587	LR-11580

Program Area—Issuer Related Party Transactions

Name of Case	Date Filed	Release No.
In the Matter of Grammer K. Hilton	080887	34-24887
In the Matter of Clayton A. Sweeney	080887	34-24888
SEC v. Wallace C. Spoleman, et al.	083187	LR-11532
SEC v. Robert J. Buckley	080887	AAER 152
SEC v. Allegheny International Inc.	082787	AAER 151

Program Area—Market Manipulation

Name of Case	Date Filed	Release No.
In the Matter of R.A. Johnson & Co., Inc.	011387	34-23885
In the Matter of Jaffarian & Co., Inc., et al.	031987	34-24231
In the Matter of Joseph V. Pignatiello	051187	34-24443
In the Matter of Edward Michael Furlong	041387	34-24335
In the Matter of David Allen Parker, et al.	080887	34-24887
In the Matter of Richard Bolton	080887	34-24888
In the Matter of David Siegel	072187	34-24719
SEC v. Kenneth R. Burns, et al.	122288	LR-11382
SEC v. Boyd L. Jaffarian, et al.	031987	LR-11370
SEC v. Andrew Nance, et al.	040887	LR-11402
SEC v. Magna Technologies Inc., et al.	080887	LR-11429
SEC v. Medical Dispensing Systems, Inc., et al.	080387	LR-11563

Program Area—Offering Violations (By Non-Regulated Entities)

Name of Case	Date Filed	Release No.
In the Matter of M. Fenson & Co., Inc., et al.	121386	34-23887
In the Matter of Jerold Newman	051587	34-24457
In the Matter of David Leroy Bustrum, et al.	062587	34-24642
In the Matter of Larry B. Groover	042187	34-24373
In the Matter of GSS S Venture Capital Corp.	081787	34-24597
In the Matter of Sherwood Financial Ltd.	081787	34-24598
In the Matter of Philip C. Cordak	080387	34-24886
In the Matter of F. N. Wolf & Co., Inc.	080387	34-24889
In the Matter of Bunker Securities Corp., et al.	080387	34-24890

Program Area—Offering Violations (By Non-Regulated Entities)

Name of Case	Date Filed	Release No.
In the Matter of Salas Donde U.S.A., Inc.	120888	33-6690
In the Matter of Lowtech, Inc.	051387	33-6712
In the Matter of Pegatex, Inc.	080487	33-6729
In the Matter of Barry Patch Investments, Inc.	080387	33-6737

In the Matter of Mohave Minerals Inc.	051387	33-6729
In the Matter of Hughes Capital Corp.	072087	33-6725
In the Matter of Newsearch Restaurants, Inc.	030987	33-6694
In the Matter of GIN Enterprises, Inc.	060987	33-6716
SEC v. Capital Systems Corp.	120886	LR-11312
SEC v. Beise Donde U.S.A. Inc., et al.	120986	LR-11303
SEC v. Texam Resources Inc., et al.	120486	NONE
SEC v. Steven A. Keyser	013087	LR-11357
SEC v. James R. Bramble, et al.	032087	LR-11413
SEC v. Healthdyne, Inc.	060987	AAER 135
SEC v. Powers & Sadowski, Inc., et al.	042287	LR-11424
SEC v. GSS Venture Capital Corp., et al.	061787	LR-11467
SEC v. Robert Cooper, et al.	052187	LR-11444
SEC v. Southwest Bank & Trust Co., Ltd.	080487	LR-11468
SEC v. FP Industries, Inc., et al.	063087	LR-11481
SEC v. Thomas C. Shiu, et al.	080487	LR-11537
SEC v. Newport Interstate properties, Inc., et al.	081887	LR-11530
SEC v. Bernhard Dohrmann, et al.	091087	LR-11538
SEC v. Petro-Serve, Ltd., et al.	072287	LR-11485
SEC v. Pacific & Texas Pipeline & Transportation Co., et al.	080487	LR-11577
SEC v. Michael K. Thomas, et al.	080487	LR-11580
SEC v. National Petroleum Inc., et al.	080487	LR-11582
SEC v. Oliver C. Reese	080387	LR-11591
SEC v. Interstate Exploration, Inc., et al.	062187	LR-11584
SEC v. Pulsar Oil & Gas, Inc., et al.	083087	LR-11600
SEC v. Stephen Michael Wood	083087	LR-11585
In the Matter of Pioneer Venture Corp., et al.	082787	33-67311

Program Area—Offering Violations (By Regulated Entities)

Name of Case	Date Filed	Release No.
In the Matter of Jack R. Mathias, et al.	120888	34-23885
In the Matter of Capital Sunbelt Securities, Inc., et al.	030487	34-24177
In the Matter of Joseph M. Ellis	012087	34-24015
In the Matter of Robert Gray Gibson	032387	34-24048
In the Matter of Malcolm Karsen	052887	34-24509
In the Matter of Hugh F. Sackett	083087	34-24662
In the Matter of Hamilton Grant & Co., Inc., et al.	070787	34-24579
In the Matter of Tax & Financial Programming Inc., et al.	083087	IA 1088
SEC v. Charles R. Harmon, et al.	120386	LR-11299
SEC v. Philip Cordek, et al.	120986	LR-11310

Program Area—Offering Violations (By Regulated Entities)

Name of Case	Date Filed	Release No.
SEC v. Dennis A. Thomas, et al.	111486	LR-11301
SEC v. Capital Sunbelt Investments, Inc.	102386	LR-11394
SEC v. Charles Philip Elliot, et al.	033187	LR-11468
SEC v. James D. Holmes, et al.	031987	LR-11382
SEC v. Morgan Petroleum Inc., et al.	082287	LR-11555
SEC v. Worldwide Investment Research, Ltd., et al.	082587	LR-11573
SEC v. William Edgar Crowder, et al.	082887	LR-11575

Table 34

ENFORCEMENT CASES INITIATED BY THE COMMISSION DURING FISCAL 1987 IN VARIOUS PROGRAM AREAS

(Each case initiated has been included in only one category listed below, even though many cases involve multiple allegations and may fall under more than one category.)

Program Area in Which a Civil Action or Administrative Proceeding Was Initiated	Civil Actions[1,2]	Administrative Proceedings	Total[1]	% of Total Cases
Broker-Dealer Cases				
(a) Backoffice	6 (7)	11 (17)	17 (24)	
(b) Fraud Against Customer	7 (19)	30 (45)	37 (64)	
(c) Stock Loan	1 (1)	1 (1)	2 (2)	
(d) Other	3 (3)	16 (23)	19 (26)	
Total Broker-Dealer Cases	17 (30)	58 (86)	75 (116)	25%
Securities Offering Cases				
(a) Non-regulated Entity	22 (95)	16 (19)	38 (114)	
(b) Regulated Entity	9 (36)	8 (13)	17 (49)	
Total Securities Offering Cases	31 (131)	24 (32)	55 (163)	19%
Issuer Financial Disclosure	30 (92)	22 (25)	52 (117)	17%
Insider Trading Cases	28 (57)	8 (9)	36 (66)	12%
Other Regulated Entity Cases				
(a) Investment Advisers	2 (4)	17 (26)	19 (30)	
(b) Investment Companies	1 (2)	5 (10)	6 (12)	
Total Other Regulated Entity Cases	3 (6)	22 (36)	25 (42)	9%
Contempt Proceedings				
(a) Civil	9 (15)	0 (0)	9 (15)	
(b) Criminal	4 (7)	0 (0)	4 (7)	
Total Contempt Proceedings	13 (22)	0 (0)	13 (22)	4%
Market Manipulation Cases	5 (28)	7 (9)	12 (37)	4%
Related Party Transactions	3 (5)	2 (2)	5 (7)	2%
Corporate Control Violations	3 (4)	1 (2)	4 (6)	1%
Fraud Against Regulated Entity	1 (1)	0 (0)	1 (1)	0%
SUBTOTALS	134 (369)	146 (204)	280 (573)	
Delinquent Filings				
(a) Issuer Reporting	19 (21)	0 (0)	19 (21)	6%
(b) Forms 3 & 4	4 (5)	0 (0)	4 (5)	1%
GRAND TOTALS	157 (395)	146 (204)	303 (599)	100%

[1]The number of defendants and respondents is noted parenthetically.

[2]This category includes injunctive actions, and civil and criminal contempt proceedings.

Table 35

INVESTIGATIONS OF POSSIBLE VIOLATIONS OF THE ACTS ADMINISTERED BY THE COMMISSION

Pending as of October 1, 1986	743
Opened in fiscal year 1987	322
Total	1,065
Closed in fiscal year 1987	234
Pending as of September 30, 1987	731

During the fiscal year ending September 30, 1987 72 Formal Orders of Investigation were issued by the Commission upon recommendation of the Division of Enforcement.

Table 36

ADMINISTRATIVE PROCEEDINGS INSTITUTED DURING FISCAL YEAR ENDING SEPTEMBER 30, 1987

Broker-Dealer Proceedings	89
Investment Adviser and Investment Company Proceedings	25
Stop Order and Regulation A Proceedings	10
Rule 2(e) Proceedings	9
Disclosure Proceedings (Section 15(c)(4) of the Exchange Act)	13
Total Proceedings in fiscal year 1987	146

Table 37

INJUNCTIVE ACTIONS

Fiscal Year	Actions Initiated	Defendants Named
1976	158	722
1977	166	715
1978	135	607
1979	108	511
1980	103	387
1981	115	398
1982	136	418
1983	151	416
1984	179	508
1985	143	385
1986	163	488
1987	142	376

Trading Suspensions

During fiscal year 1987, the Commission suspended trading in the securities of twelve companies. This compares with five in fiscal year 1986. In most instances, the trading suspension was ordered because of substantial questions as to the adequacy, accuracy or availability of public information concerning the company's financial condition or business operations, or because transactions in the company's securities suggested possible manipulation or other violations.

Foreign Restricted List

The Securities and Exchange Commission maintains and publishes a Foreign Restricted List which is designed to put broker-dealers, financial institutions, investors and others on notice of possible unlawful distributions of foreign securities in the United States. The list consists of names of foreign companies whose securities the Commission has reason to believe have been, or are being offered for public sale in the United States in possible violation of the registration requirement of Section 5 of the Securities Act of 1933. The offer and sale of unregistered securities deprives investors of all the protections afforded by the Securities Act of 1933, including the right to receive a prospectus containing the information required by the Act for the purpose of enabling the investor to determine whether the investment is suitable for him. While most broker-dealers refuse to effect transactions in securities issued by companies on the Foreign Restricted List, this does not necessarily prevent promotors from illegally offering such securities directly to investors in the United States by mail, by telephone, and sometimes by personal solicitation. The following foreign corporations and other foreign entities comprise the Foreign Restricted List.

1. Aguacate Consolidated Mines, Incorporated (Costa Rica)
2. Alan MacTavish, Ltd. (England)
3. Allegheny Mining and Exploration Company, Ltd. (Canada)
4. Allied Fund for Capital Appreciation (AFCA, S.A.) (Panama)
5. Amalgamated Rare Earth Mines, Ltd. (Canada)
6. American Industrial Research S.A., also known as Investigation Industrial Americana, S.A. (Mexico)
7. American International Mining (Bahamas)
8. American Mobile Telephone and Tape Co., Ltd. (Canada)
9. Antel International Corporation, Ltd. (Canada)
10. Antoine Silver Mines, Ltd. (Canada)
11. ASCA Enterprisers Limited (Hong Kong)
12. Atholl Brose (Exports) Ltd. (England)
13. Atholl Brose Ltd. (England)
14. Atlantic and Pacific Bank and Trust Co., Ltd. (Bahamas)
15. Bank of Sark (Sark, Channel Islands, U.K.)
16. Briar Court Mines, Ltd. (Canada)
17. British Overseas Mutual Fund Corporation Ltd. (Canada)
18. California & Caracas Mining Corp., Ltd. (Canada)
19. Caprimex, Inc. (Grand Cayman, British West Indies)
20. Canterra Development Corporation, Ltd. (Canada)
21. Cardwell Oil Corporation, Ltd. (Canada)
22. Caribbean Empire Company, Ltd. (British Honduras)
23. Caye Chapel Club, Ltd. (British Honduras)
24. Central and Southern Industries Corp. (Panama)
25. Cerro Azul Coffee Plantation (Panama)
26. Cia. Rio Banano, S.A. (Costa Rica)
27. City Bank A.S. (Denmark)
28. Claw Lake Molybdenum Mines, Ltd. (Canada)
29. Claravella Corporation (Costa Rica)
30. Compressed Air Corporation, Limited (Bahamas)
31. Continental and Southern Industries, S.A. (Panama)
32. Crossroads Corporation, S.A. (Panama)
33. Darien Exploration Company, S.A. (Panama)
34. Derkglen, Ltd. (England)
35. De Veers Consolidated Mining Corporation, S.A. (Panama)
36. Doncannon Spirits, Ltd. (Bahamas)
37. Durman, Ltd. Formerly known as Bankers International Investment Corporation (Bahamas)
38. Empresia Minera Caudalosa de-Panama, S.A. (Panama)
39. Ethel Copper Mines, Ltd. (Canada)

40. Euroforeign Banking Corporation, Ltd. (Panama)
41. Finansbanker a/s (Denmark)
42. First Liberty Fund, Ltd. (Bahamas)
43. General Mining S.A. (Canada)
44. Global Explorations, Inc. (Panama)
45. Global Insurance, Company, Limited (British West Indies)
46. Globus Anlage-Vermittlungsgesellschaft MBH (Germany)
47. Golden Age Mines, Ltd. (Canada)
48. Hebilla Mining Corporation (Costa Rica)
49. Hemisphere Land Corporation Limited (Bahamas)
50. Henry Ost & Son, Ltd. (England)
51. Hotelera Playa Flamingo, S.A.
52. Intercontinental Technologies Corp. (Canada)
53. International Communications Corporation (British West Indies)
54. International Monetary Exchange (Panama)
55. International Trade Development of Costa Rica, S.A.
56. Ironco Mining & Smelting Company, Ltd. (Canada)
57. James G. Allan & Sons (Scotland)
58. Jojoba Oil & Seed Industries S.A. (Costa Rica)
59. Jupiter Explorations, Ltd. (Canada)
60. Kenilworth Mines, Ltd. (Canada)
61. Klondike Yukon Mining Company (Canada)
62. KoKanee Moly Mines, Ltd. (Canada)
63. Land Sales Corporation (Canada)
64. Los Dos Hermanos, S.A. (Spain)
65. Lynbar Mining Corp. Ltd. (Canada)
66. Massive Energy Ltd. (Canada)
67. Mercantile Bank and Trust & Co., Ltd. (Cayman Island)
68. J.P. Morgan & Company, Ltd., of London, England (not to be confused with J.P. Morgan & Co., incorporated, New York)
69. Norart Minerals Limited (Canada)
70. Normandie Trust Company, S.A. (Panama)
71. Northern Survey (Canada)
72. Northern Trust Company, S.A. (Switzerland)
73. Northland Minerals, Ltd. (Canada)
74. Obsco Corporation, Ltd. (Canada)
75. Pacific Northwest Developments, Ltd. (Canada)
76. Pan-Alaska Resources, S.A. (Panama)
77. Panamerican Bank & Trust Company (Panama)
78. Pascar Oils Ltd. (Canada)
79. Paulpic Gold Mines, Ltd. (Canada)
80. Pyrotex Mining and Exploration Co., Ltd. (Canada)
81. Radio Hill Mines Co., Ltd. (Canada)
82. Rancho San Rafael, S.A. (Costa Rica)
83. Rodney Gold Mines Limited (Canada)
84. Royal Greyhound and Turf Holdings Limited (South Africa)
85. S.A. Valles & Co., Inc. (Philippines)
86. San Salvador Savings & Loan Co., Ltd. (Bahamas)
87. Santack Mines Limited (Canada)
88. Security Capital Fiscal & Guaranty Corporation S.A. (Panama)
89. Silver Stack Mines, Ltd. (Canada)
90. Societe Anonyme de Refinancement (Switzerland)
91. Strathmore Distillery Company, Ltd. (Scotland)
92. Strathross Blending Company Limited (England)
93. Swiss Caribbean Development & Finance Corporation (Switzerland)
94. Tam O'Shanter, Ltd. (Switzerland)
95. Timberland (Canada)
96. Trans-American Investments, Limited (Canada)
97. Trihope Resources, Ltd. (West Indies)
98. Trust Company of Jamaica, Ltd. (West Indies)
99. United Mining and Milling Corporation (Bahamas)
100. Unitrust Limited (Ireland)
101. Vacationland (Canada)
102. Valores de Inversion, S.A. (Mexico)
103. Victoria Oriente, Inc. (Panama)
104. Warden Walker Worldwide Investment Co. (England)
105. Wee Gee Uranium Mines, Ltd. (Canada)
106. Western International Explorations, Ltd. (Bahamas)
107. Yukon Wolverine Mining Company (Canada)

Right to Financial Privacy

Section 21(h) of the Securities Exchange Act of 1934 [15 U.S.C. 78u(h)(6)] requires that the Commission "compile an annual tabulation of the occasions on which the Commission used each separate subparagraph or clause of [Section 21(h)(21)] or the provisions of the Right to Financial Privacy Act of 1978 [12 U.S.C. 3401-22 (the RFPA)] to obtain access to financial records of a customer and include it in its annual report to the Congress."

During the fiscal year, the Commission made no applications to courts for orders pursuant to the subparagraphs and clauses of Section 21(h)(2) to obtain access to financial records of a customer. The table below sets forth the number of occasions upon which the Commission obtained accesss to the financial records of a customer using the procedures provided by (i) Section 1105 of the RFPA [12 U.S.C. 3405], applicable to administrative subpoenas; (ii) Section 1104 of the RFPA [12 U.S.C. 3404], applicable to customer consents; and (iii) Section 1107 of the RFPA [12 U.S.C. 3407], applicable to judicial subpoenas.

Section	Section	Section
1104	1105	1107
3	112	1

CORPORATE REORGANIZATIONS

During fiscal year 1987, the Commission entered its appearance in 32 reorganization cases filed under Chapter 11 of the Bankruptcy Code involving companies with aggregated stated assets of about $22.6 billion and close to 380,000 public investors including the Texaco Chapter 11 case with assets of $18.3 billion and about 275,000 public investors. Counting these new cases, the Commission was a party in a total of 133 Chapter 11 cases during the fiscal year. In these cases the stated assets totalled approximately $42.1 billion and almost 1 million public investors were involved. During fiscal year 1987, 35 cases were concluded through confirmation of a plan of reorganization, dismissal, or liquidation, leaving 98 cases in which the Commission was a party at year-end.

Table 38

REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE IN WHICH COMMISSION ENTERED APPEARANCE

Debtor	District	F.Y. Opened	F.Y. Closed
ADI Electronics	D. DE	1987	
A.H. Robins Co., Inc.	E.D. VA	1985	
AIA Industries, Inc.	E.D. PA	1984	
Air Florida System, Inc.	S.D. FL	1984	
Air One, Inc.	E.D. MO	1985	1987
Airlift International, Inc.	S.D. FL	1981	
Allis-Chalmers	S.D. NY	1987	
Altec Corp.	C.D. CA	1985	
Amarex, Inc.	W.D. OK	1983	1987
American Fuel Tech., Inc.	D. DE	1987	
American Monitor Corp.	S.D. IN	1986	
Amfesco Ind., Inc.	E.D. NY	1986	
Amfood Ind.	N.D. IL	1986	
ATI, Inc.	D. NJ	1985	
Baker Industries Corp.	S.D. NY	1986	
Barry Industries Corp.	C.D. CA	1985	
Bevill, Bressler & Schulman[1]	D. NJ	1985	1987
The Bishop's Glen Fndn., Inc.[1]	N.D. FL	1985	1987
Branch Industries, Inc.	S.D. NY	1985	
Buttes Gas & Oil Co.	S.D. TX	1986	
Capitol Air, Inc.	S.D. NY	1985	1987
Castle Industries, Inc.	E.D. AR	1987	
Chalet Gourmet Corp.	C.D. CA	1985	
Charter Co.	M.D. FL	1984	
Cisel, Inc.	N.D. CA	1985	
Citywide Securities Corp.[1]	S.D. NY	1985	
CLC of America	E.D. MO	1986	
CoElco Ltd.	C.D. CA	1986	1987
Colonial X-Ray Corp.	S.D. FL	1986	
Columbia Data Products, Inc.	D. MD	1985	
Combustion Protection Corp.	E.D. NY	1987	
Commodore Corporation	N.D. IN	1985	1987
Commonwealth Oil Refining Co., Inc	W.D. TX	1984	
Computer Depot, Inc.	D. MN	1986	1987
Coneaco Ind., Ltd.	D. NJ	1986	1987
Connor Corp.	E.D. NC	1987	
Cook United, Inc.	N.D. OH	1985	1987
Cordyne Corp.	D. OR	1987	
Crompton Co., Inc.	S.D. NY	1985	
Crutcher Resources Corp.	S.D. TX	1987	1987

Table 38—Continued

REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE IN WHICH COMMISSION ENTERED APPEARANCE

Debtor	District	F.Y. Opened	F.Y. Closed
Dakota Minerals, Inc.	D. WY	1986	
D'Lites of America, Inc.	N.D. GA	1986	
Eastmet Corp	D. MD	1986	
Emons Industries, Inc.	S.D. NY	1984	1987
Enstronics, Inc.	D. MN	1987	
Energy Exchange Corp.	W.D. OK	1985	1987
Energy Management Corp.	D. CO	1986	1987
Enertec Corp.	N.D. TX	1986	1987
Enterprise Technologies, Inc.	S.D. TX	1984	
Equestrian Ctrs. of Amer., Inc.	C.D. CA	1985	
Evans Products Co.	S.D. FL	1985	
Fidelity American Financial Corp.[1]	E.D. PA	1981	
Financial & Bus. Serv., Inc.[1]	W.D. NC	1986	
Flanigan Enterprises	S.D. FL	1986	1987
Galaxy Oil Company	N.D. TX	1987	
General Exploration Co.	N.D. OH	1986	
General Resources Corp.	N.D. GA	1980	
GIC Govt. Securities, Inc.[1]	M.D. FL	1986	
Global Marine, Inc.	S.D. TX	1986	
Heck's, Inc.	S.D. WA	1987	
Heliomatics, Inc.	C.D. CA	1987	
Holiday Resources, Inc.	S.D. TX	1987	
Homecrafters Warehouse, Inc.	N.D. AL	1986	1987
ICX, Inc.	D. CO	1984	
Inflight Services, Inc.	S.D. NY	1987	
Int'l. Inst. of Applied Tech., Inc.	D. DC	1983	
International Waste Water[1]	M.D. PA	1985	
Kaiser Steel Corp.	D. CO	1987	
Kensi Corp.	S.D. NY	1987	
LTV Corporation	S.D. NY	1986	
Magic Circle Energy Corp.	W.D. OK	1985	
Manoa Finance Co., Inc.[1]	D. HA	1983	1987
McLean Industries, Inc.	S.D. NY	1987	
Manville Corp.	S.D. NY	1982	
Michigan General Corp.	N.D. TX	1987	
Microcomputer Memories, Inc.	C.D. CA	1986	
Mid-America Petroleum, Inc.	N.D. TX	1986	
Midland Capital Corp.	S.D. NY	1986	
Mission Insurance Group, Inc.	C.D. CA	1987	
Murphy Industries, Inc.			
Nat'l. Bus. Communications Corp.	S.D. FL	1986	
ND Resource, Inc.	D. AZ	1985	1987
New Brothers, Inc.	S.D. GA	1985	
Nicklos Oil & Gas Co.	S.D. TX	1986	
Nucorp Energy, Inc.	S.D. CA	1982	
Ohio Ferro-Alloys Corp.	N.D. OH	1987	
Oliver's Stores	E.D. NY	1987	
Oxoco, Inc.	S.D. TX	1986	1987
Pacific Express Holding, Inc.	E.D. CA	1984	
Paiute Oil & Mining Corp.	D. UT	1985	1987
Penn Pacific Corp.	C.D. CA	1986	1987
Pettibone Corp.	N.D. IL	1986	
Psych Systems	D. MD	1986	
QT&T, Inc.	E.D. NY	1987	
Robin Industries, Inc.	W.D. NY	1985	1987
Ronco Teleproducts, Inc	N.D. IL	1984	

Table 38—Continued

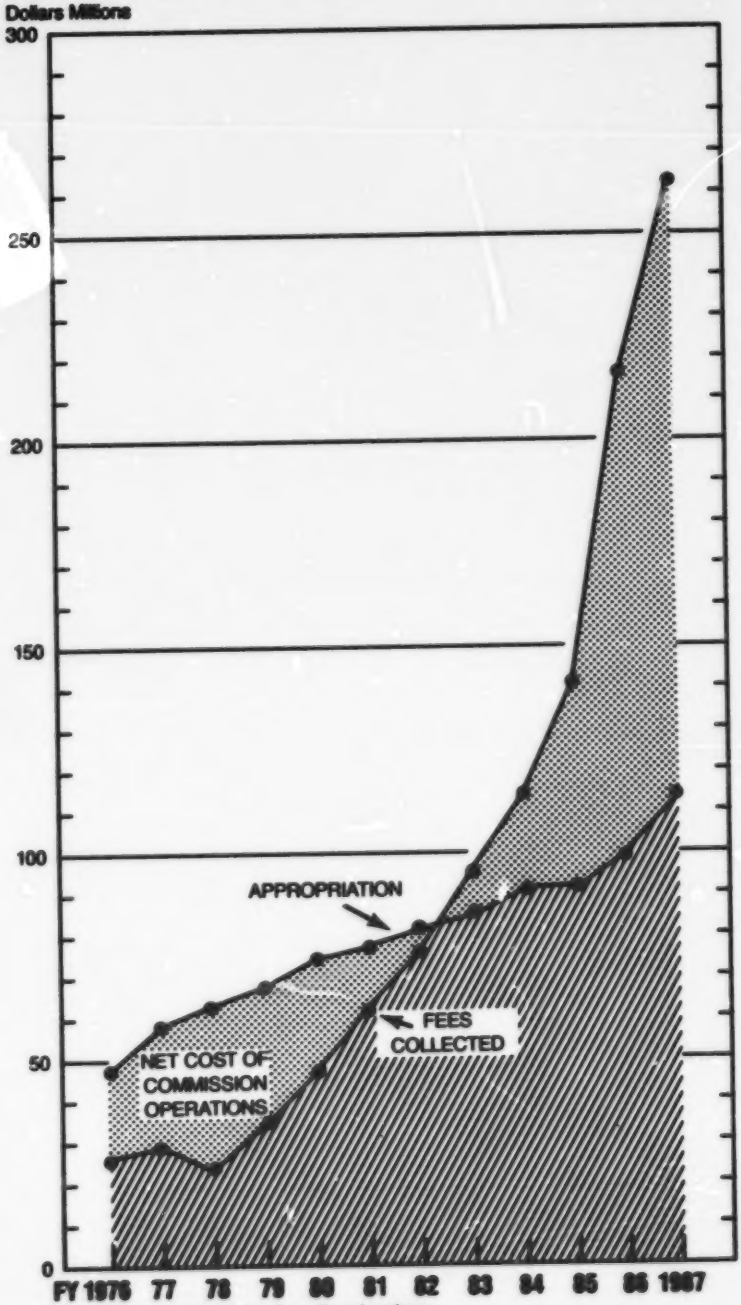
REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE IN WHICH COMMISSION ENTERED APPEARANCE

Debtor	District	F.Y. Opened	F.Y. Closed
Rusco Industries, Inc.	S.D. GA	1988	1987
Salant Corp.	S.D. NY	1985	1987
Seatrain Lines, Inc.	S.D. NY	1981	
Selectors, Inr.	E.D. WA	1986	
Servamatic Systems, Inc.	N.D. CA	1986	
Shatterproof Glass Corp.	E.D. MI	1987	
Shearson-Murray Real Estate Fund, Ltd.	N.D. TX	1987	
Spencer Cos., Inc.	D. MA	1987	
SPW Corporation	N.D. TX	1985	1987
Standard Metals Corp.	D. CO	1984	
State Capital Corp	M.D. FL	1985	
Steiger Tractor, Inc.	D. ND	1986	1987
Storage Technology, Inc.	D. CO	1985	
Swanson Corp	S.D. NY	1985	
Sykes Datatronics, Inc.	W.D. NY	1986	1987
Taco Eds, Inc.[1]	N.D. OH	1984	
Tacoma Boatbuilding Co.	S.D. NY	1988	1987
Technical Equities Corp.	N.D. CA	1986	1987
Texaco, Inc.	S.D. NY	1987	
Texacan Corp.	D. AZ	1986	
Tidwell Industries, Inc.	N.D. AL	1988	
Towle Manufacturing Con	S.D. NY	1986	
Transwestern Exploration	N.D. OK	1985	1987
Twin City Barge, Inc.	D. MN	1987	
Unimat Corp.	N.D. OH	1986	1987
The Vela Grande Cos., Inc.	C.D. CA	1986	
Victoria Station	N.D. CA	1986	
Videostation, Inc.	C.D. CA	1985	1987
W & J Sloane Corp.	S.D. NY	1988	
Wedtech Corp.	S.D. NY	1987	
Westworld Community Healthcare, Inc.	C.D. CA	1987	
Wheatland Investment Co.[1]	E.D. WA	1985	
Wheeling-Pittsburgh Steel Corp.	W.D. PA	1985	
Windsor Ind., Inc.	N.D. IL	1986	1987
Xenarex Corp.	W.D. OK	1986	1987
ZZZZ Best Co., Inc.	C.D. CA	1987	
Total Cases Opened (FY 1988)		32	
Total Cases Closed (FY 1988)			35

[1]Debtor's securities not registered under Section 12(g) of the Exchange Act.

Table 39

Appropriated Funds vs Fees* Collected



*excludes disgorgements from fraud actions

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Table 40

BUDGET ESTIMATES AND APPROPRIATIONS

$(000)

Action	Fiscal 1982		Fiscal 1983		Fiscal 1984		Fiscal 1985		Fiscal 1986		Fiscal 1987	
	Positions	Money	Positions	Money	Positions	Money	Positions	Money	Positions	Money	Positions	Money
Estimate submitted to the Office of Management and Budget	2,230	$87,970	2,016	$88,053	2,021	$94,935[1]	2,310	$105,880	2,181	$117,314	2,172	$123,069
Action by the Office of Management and Budget	−248	−5,134	−120	−3,753	−125	−3,000	−268	−1,197	−121	−9,197	−86	−9,039
Amount allowed by the Office of Management and Budget	1,982	82,836	1,896	84,300	1,896	91,935	2,042	104,683	2,060	108,117[2]	2,086	114,050
Action by the House of Representatives	+20	−1,130	+125	+4,300	+203	+3,847	+4	−2,215	+23	+1,850	...	+1,050
Sub-Total	2,002	81,706	2,021	88,600	2,099	95,782	2,046	102,468	2,088	109,767	2,086	115,100
Action by the Senate	+19	+2,584	...	−580	−170	−5,190	−4	+2,889	−28	+588	...	−1,050
Sub-Total	2,021	84,300	2,021	88,040	1,929	90,592	2,042	105,337	2,060	110,355	2,086	114,050
Action by conferees	...	−1,394	...	...	+92	+2,408	+4	...	+20	+745	...	+450
Annual funding level	2,021	82,906	2,021	88,040	2,021	93,000	2,046	105,337	2,080	111,100	2,086	114,500
Supplemental appropriation	...	+460	...	+1,850	...	+1,000	...	+1,045	...	...	...	...
Sequestration	...	...	...	...	...	...	...	...	...	−4,777	...	...
Total funding level	2,021	83,306	2,021	89,890	2,021	94,000	2,046	106,382	2,080	106,323	2,086	1 14,500

[1]Includes $3,135,000 not in original OMB submission for pay increase expenses considered by Congress in initial deliberations.

[2]Includes 14 positions and $850,000 for Public Utility Regulation activities which were excluded from the agency submission but considered by Congress.

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